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FINANCIAL TIMES

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NEWS SUMMARY

GENERAL
Data
Bank
Privacy
scheme

The Government yesterday proposed extensive legislation to protect the privacy of personal information held in computers. Contained in a White Paper Computers and Privacy, the proposals could lead to a code of standards covering the use of computers dealing with personal information.

igate thwarts
inboat attacks

Attempts by the Icelandic boat Odinn to cut the trawls of British fishing boats were thwarted yesterday by the HMS Leander placing herself between the submarine and its intended victims. The frigate, which sailed from Rosyth for the area yesterday, is due to return to port today. Each warship will relieve a frigate in the area.

ctors prolong
air action

For hospital doctors last night ignored for a week a decision to go to war, off industrial on-while the wording of an amendment is tightened up. Back to

ortgage pushes
rkey prices up

Highest shortage of fresh eggs at London's Smithfield market since the war pushed prices up yesterday to their highest level for this year. In prices will be 60p a lb more, putting the cost of an egg at 17p. Committee, Page 27

vice for
ss McWhirter

Over 1,000 people attended today's thanksgiving service at St. Paul's Cathedral for the life of Sir Ross McWhirter, who passed away on his 50th birthday on November 27.

rster troops
id in Luanda

White soldiers alleged to be regular South African troops had been captured on the Angolan front, were reported to the press by the MPLA yesterday. The men reported to have been identified as members of the South African Army. Page 5

ge goes on

ward efforts by a South African cleric to persuade a gunman to release 25 hostages at Indonesia's Amsterdamsquare were unsuccessful today.

iefly...

sh Airways services, disrupted yesterday by fog, were back to normal today. "Well into today," Derek Erva, National Council chairman, is in becoming of the British Institute of Management, Men and Matters. 12

alla's new Liberal-Country Government is to hold talks next month with the Labour Party.

Sara Jane Moore, 45, was found dead in San Francisco today after attempting to kill her husband. The police are investigating the murder.

Indies defeated Australia 10 runs and 57 runs in the first Test. Page 2

IEF PRICE CHANGES YESTERDAY

Commodity	Price
100lb 1985	1861 + 1
100lb 1986	1861 + 1
100lb 1987	1861 + 1
100lb 1988	1861 + 1
100lb 1989	1861 + 1
100lb 1990	1861 + 1
100lb 1991	1861 + 1
100lb 1992	1861 + 1
100lb 1993	1861 + 1
100lb 1994	1861 + 1
100lb 1995	1861 + 1
100lb 1996	1861 + 1
100lb 1997	1861 + 1
100lb 1998	1861 + 1
100lb 1999	1861 + 1
100lb 2000	1861 + 1

BUSINESS
Equities
4.3 up
in quiet
market

● **EQUITIES** edged higher in a quiet market. The Government statement on Chrysler brought prices back but the FT 100-share index closed 4.3 higher at 367.8.

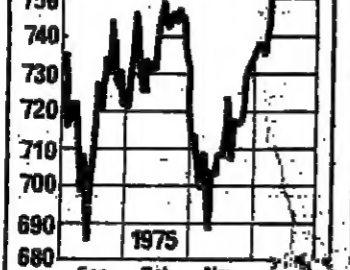
● **GILTS** were quietly firm, with gains of up to 1/4 by the close. The Government Securities index put on 0.10 to 58.51.

● **STERLING** gained 15 points against the dollar to \$2.0185. Its average depreciation narrowed to 30 per cent. (30.1), while the dollar's widened to 1.72 per cent. (1.58).

● **GOLD** gained 25 cents to \$139.

● **WALL STREET** closed 7.71 up at 844.30.

● **COFFEE** prices on the London terminal market rose by £13 a tonne to £787.5 on fears that



floods in Colombia may have affected 30 per cent of its crop. Page 27

● **GEM DIAMONDS** marketed by the Central Selling Organisation will go up in price by an average of 3 per cent. in January, says De Beers. Page 24

● **EEC Court of Justice** has lifted or reduced fines imposed in 1972 on 18 sugar companies by the Commission for breaking Common Market cartel rules. Back Page

● **EEC COMMISSION's** plan for phasing out beef deficiency payments in Britain next year in favour of intervention buying prices is completely unacceptable, Mr. Frank Patten told Ministers in Brussels. Page 27

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Unions, Left and Right-wing MPs attack Government's £162.5m. scheme

Storm grows on Chrysler rescue

BY TERRY DODSWORTH, MOTOR INDUSTRY CORRESPONDENT

FIERCE OPPOSITION was building up on all sides last night to the Government's rescue proposals for Chrysler U.K., announced to a largely hostile House of Commons yesterday by Mr. Eric Varley, the Industry Secretary. The government, though, gained a comfortable majority of 25 on a procedural motion on Chrysler last night. The voting was 285-90.

But there were about a dozen Labour abstainers from the Right-wing Manifesto Group, who could make the Government's position precarious to-night when the Chrysler Order approving the deal comes before the Commons. A special meeting of the Parliamentary Labour Party has been called for this evening in an attempt to persuade the abstainers to vote for the Chrysler agreement.

The Government could be in difficulties tonight because the Scottish National Party, who voted for the Government procedural motion are reserving their position and could vote against the Order.

Mr. Varley's announcement in which he talked of the agony of the last few weeks, which have been in some respects the

most difficult of my life," was met with criticism from both Left and Right of the Labour Party, as well as from the Opposition benches.

The Government's decision, he argued, would save 17,000 jobs lost out of the company's total workforce of 25,000, and also Chrysler's important Iranian export order.

"The thought of 25,000 workers and just as many indirectly employed in the industry and the prospect of them being unemployed was daunting and something that haunted me night and day," he said.

With several members of the Manifesto Group of MPs threatening to abstain on the Chrysler issue, the Government could now be forced into the ignominious position of having to rely on the Scottish National Party to push its Chrysler policy through.

Initial reactions from the trade unions were even more antagonistic. Mr. Varley now faces the task of trying to persuade them to accept the Government's line when he meets shop stewards and national officials in London to-day.

Yesterday Chrysler shop stewards in Coventry walked out of a briefing session with a company official, saying that they were "stunned" by the size of the redundancies.

Mr. Liam Byrne, a senior transport union steward at the Ryton car plant viewed the figures for

hostile line at its Council meeting to-morrow.

Within the motor industry generally there is widespread dismay of further evidence of Government intervention which will place Britain's unsubsidised car producers—Ford and Vauxhall—in an invidious position.

Under the terms of the Government's proposals the 8,000 redundancies will be spread fairly equally across Chrysler's main plants, with 2,100 jobs being lost at Stoke, Coventry, 2,500 at Ryton, Coventry, and 3,000 at Linwood, Scotland. The Maidstone plant, which employs 500, will be closed.

Despite these redundancies, however, Chrysler appears to be holding out possibilities of an expansion in the longer term. At Linwood this will begin when the Avenger assembly lines are transferred from Ryton in Coventry to Linwood, Scotland, in the middle of next year, creating about 1,500 jobs.

The company said last night that the move of the Avenger, which is to be given a facelift at the same time, will be followed by introduction of the new French-built Alpine (the 1307/1308 in France) to Ryton, where

it will be assembled from imported parts.

In the following year, 1977, Chrysler intends to launch a new small conventional-drive car, and two years later this will be followed by what is described as a "light car." A new van/truck will be introduced in 1978.

Chrysler did not say how these ambitious development plans would be financed—the motor industry estimates that a new model needs at least £50m.—but presumably some of the £55m. available from the Government for investment purposes will be used for the programme. At the same time, parts of the Stoke engine plant need new equipment, along with the Linwood body pressings plant.

If Chrysler were to succeed in

Continued on Back Page

Danger of collapse in car industry, says 'Think Tank'

BY ANTHONY HARRIS

BRITISH CAR assembly plants produce only half as many cars as those in Germany, and for many, as identically equipped plants in Europe. The British reputation for quality is damagingly low, and the industry is no longer earning enough money to sustain its operations. Unless the situation is changed, it will collapse.

This is the diagnosis of the industry's problems in the published version of the report to the Government on the future of the British car industry by the Central Policy Review Staff, issued yesterday. The report calls on the Government to take the lead in a crisis programme.

Failing this, car output would drop by 50 per cent. in the next decade, with the loss of 275,000 jobs and at a cost to the balance of payments of £1bn.

The production of car components and mechanical assemblies is by contrast relatively competitive, according to the CPRS.

Government policy should be based on aid conditional on better performance, says the CPRS, since it would not be beneficial to support an industry which would not become viable, and long-term subsidies would not be possible within the EEC. It means of restraining Japanese

imports if coming talks with the Japanese fail.

4-To recognise the need to close some plants and rationalise model ranges: The Government should make this an objective in planning agreements, take the lead in arranging for more generous lay-off arrangements, and take early action through attraction of new industries and retraining of redundant workers to minimise the resulting unemployment.

5-The Government should take action in British Leyland to bring about the changes which are necessary for the industry as a whole. Financial aid should be conditional on the achievement of agreed improvement standards. A long-term subsidy would simply drive more efficient multinational competitors out of the U.K.

6. Consider requests for financial assistance from other manufacturing companies in the same light. (The CPRS report, which has been in the hands of Ministers for some weeks, was drafted before the Chrysler crisis.)

The report gives a warning that the prospect for the car market in Europe as a whole is discouraging in the next decade, and competition will be tough.

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

ROLLS-ROYCE (1971) will have "just to keep standing still," let alone expand its business.

It annoys the hell out of me to see money being put into Chrysler," he said. If it had not been for the effects of inflation, Rolls-Royce would not now be looking to the Government for more cash, apart from funds specifically required to finance major new projects.

"Strangely, that there was now no doubt that the company had 'turned the corner,'" Sir Kenneth said that what was now needed, apart from proper capitalisation, was continuing Government support for the future.

"This is a long-term, high-risk business. The Government must recognise that to get the best returns, it must back it properly, not drip-feed it." The danger, as with all aerospace, was that of giving too little, too late, as though the Government was "casting bones to starving dogs."

He said that it was likely that royalties to the Government, and taxation, would take about 25 per cent. of the £80m. from the China deal. Rolls-Royce would

Continued on Back Page

No curbs on imports from EEC

BY REGINALD DALE, COMMON MARKET CORRESPONDENT

BRUSSELS, Dec. 16.

BRITAIN's selective import controls, to be announced in Parliament to-morrow, will be extremely limited in scope and will not involve trade restrictions on goods from other EEC countries.

This emerged to-night after the package had been submitted to the Brussels Commission here earlier to-day, alongside details of the Chrysler rescue operation.

EEC officials, who were still studying the import measures, said the main elements appeared to be quotas on some, but not all, textiles from Spain and Portugal, and quotas on certain textiles and footwear from eastern Europe.

The U.K. has, however, put the Commission in a delicate position, as it is the Commission that will have to justify the U.K. measures in international organisations such as GATT.

The Commission is responsible for member-State's external trade policies under the common commercial policy.

There was no immediate reaction from the Commission here to-night, although one senior official commented that the measures would cause a great deal of international trouble and having any great economic impact.

All imports of TV tubes would be subjected to a system of statistical monitoring.

The monitoring system for TV tubes would be the only one of these measures directly affecting Britain's EEC partners.

It would not in itself constitute a trade restriction as licences would be automatically issued for all imports from within the EEC.

There was no immediate reaction from the Commission here to-night, although one senior official commented that the measures would cause a great deal of international trouble and having any great economic impact.

Officials pointed out that such automatic licensing systems had already been introduced for textiles by most Community member countries.

The decision not to curb imports from other EEC countries explained why the Government had not invoked any of the major safeguard procedures contained in the various Community

treaties, it was pointed out.

Despite widespread expectations that it would do so, Britain has not invoked Article 135 of the Accession Treaty, which provides for "protective measures" in time of economic difficulties.

Use of Article 135 would have meant the Government would

have had to apply to Brussels for authorisation to restrain imports, with the Commission taking the final decision.

Officials said the U.K. had simply told the Commission what it was going to do, and had not asked for permission from Brussels.

It was not clear how far this conformed with the undertaking to consult the Commission about import restrictions that Mr. W. J. van der Stoep, the Dutch Minister, gave at the Rome summit earlier this month.

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Crossover
at Warrington

Chronological fog

by CHRIS DUNKLEY

When you watch television do classic example of the side-swipe at television which nine out of ten print culture academics feel obliged to deliver is not my invention. It was postulated with great earnestness last week on BBC radio 4 by Daniel J. Boorstin, librarian of Congress and former senior historian at the Smithsonian Institution, in his eulimatic Reith lecture which is called "The Dark Continent of Technology: The Enlarged Contemporary".

Broadly his thesis was that once with the present has become more dominant in our age than ever it was before; that we have mislaid the binding threads of history and tradition, and in addition to losing touch with the past are also failing to make due provision for the future. We are said "tragically inept at receiving messages from our ancestors or sending messages to our own posterity. It is an interesting and debatable story. It was the "chronological fog," however, that was most fascinating. Boorstin said:

"We have seen how aerobics and electronics gave to patial dimensions a disorienting new irrelevance. American unsure whether what they viewed on television was actually happening in Chicago, in Los Angeles, in New York or in a nearby studio, were newly uncertain about the where of events. They would be less confused about the when. Candid photography, the hand-held motion picture camera, the novel powers of kinescoping and videotaping—all these would affect the fewer sense of time with a new ambiguity."

"Was what you watched actually happening while you watched? Had it been filmed on a week, or a year before? It was it a re-run of something made last season? A new chronological fog enshrouded the television experience which, of course, became an ever increasing, ever more dominant proportion of everyone's experience. By the mid-1970s the best estimates suggested that an American, on the average, spent 10 hours a day at the television screen."

"The dimensions of this confusion were betrayed in a new meaning attached to 'live' itself. When Americans commonly asked themselves 'This thing that I'm watching: is it live?' Now it may be that American television and the American people have changed radically since I was last in close contact with them and that the above quotation describes a real, common, observable phenomenon: not I doubt it. I think it more likely that the quotation is a

real thing is concerned. It's a phenomenon Knocout is prototypical of the pseudo-event."

Late in 1973 the BBC came up with a similar idea. This time a one-off programme called *Sporting Superstars* in which David Hemery, Joe Bugner and five other sportsmen competed at pistol shooting, swimming, weight lifting and so on. At the time I said in this column that the idea (taken from America) was amusing enough to support one such programme, but that the danger was that if it attracted a large audience—and there was little doubt that it would—the producers would certainly be tempted to repeat the event and even to turn it into a regular series "and we don't need any more programmes designed to explore mediocrity."

That, I argued, was what *Sporting Superstars* was all about, since each sportsman was banned from the event at which he excelled and limited to competing in those in which he was not known to be any good. Sure enough, BBC 1 has not only launched into an entire series, but has organised it internationally and on a knockout basis. It is the entire circus is still limited to demonstrations of the not-very-good by the not-very-well-suited. Thus, hurdlers Alan Pascoe and Guy Drut were barred from the steeplechase in last week's heat, and footballer Paul Van Himst was not allowed to compete in penalty shooting.

Instead of these sportsmen demonstrating their world class, we were offered the sight of them playing tennis at a standard which would make any normal secondary school ashamed. It is possible that some viewers have watched these long demonstrations of the second-rate under the subconscious impression that there was all occurring live (possible, though highly unlikely: a single jump cut from Pascoe on the track to Pascoe in the gym would give the game away to all but the most determinedly imperceptive). However, there is no reason whatsoever to suppose that anyone was baffled, confused or in any way disoriented even if their impression was wrong.

The baffling thing about the series is why all the money being spent on it is not used instead to set up real sports events. As Frank Bough rightly pointed out during *Sports Review* of 1975, the British swimming team has recently been working wonders on a shoestring. Imagine what Wilkie and his colleagues might achieve if all that money was spent on organising top level swimming events instead of low level pseudo-events.

Rosalie Crutchley in 'North and South' (BBC)



Edward Woodward and Geraldine McEwan in 'On Approval,' which opened last night at the Haymarket Theatre

Young Vic

Charley's Aunt

by B. A. YOUNG

For all the 80-year-old Oxford slang and the plethora of asides with which Brandon Thomas keeps us abreast of the complications of his plot, *Charley's Aunt* remains a thoroughly serviceable play. I have only once seen it fail, and that was when the part of Lord Fancourt Babberley was taken by a female impersonator who was more convincing as Donna Lucia. Charley's anonymous aunt, then, he was an under-

graduate. Andrew Robertson makes no mistake of this kind. He is an athletic young man as Lord Fancourt (or "Fanny Bab"), as he is once misleadingly called, and he remains an athletic young man under the old lady's clothes. He has been trying on for OUDS when the emergency comes that will keep him marooned in the opposite sex for the rest of a week. He transfers his voice between the treble and the bass clefs as required and never gets a note wrong.

Danise Coffey's direction stresses the farcical side of events as far as she can all through, and so more significantly—did the coachload of schoolgirls who sat all round me. Clearly a good Christmas choice.

Albert Hall

Cat Stevens

by ANTONY THORNCROFT

Cat Stevens, the "U'm... right... well," of British song, was hardly the perfect entertainer to defrost a cold audience at the Albert Hall on Monday. His bumbling approach and limited vocal range must have caused an impartial observer to wonder at his appeal. In fact the memory of his great songs keeps enough supporters fanatical enough to bolster his usually disastrous live appearances.

By Cat Stevens' own low key standards this was quite a successful concert. In an attempt to compensate for his admitted lack of charisma he had used some of his vast financial resources to deck the stage with tubes of light and to erect a backdrop on which intermittent and only passingly relevant slides appeared. Even more, some magic men were at hand to awaken slumbering critics.

Stevens appeared on stage after a lengthy taxi exile (and a prolonged delay) by way of the magicians box, and while he was banging out songs on stage right, a lady (or is it two?) was being

a Scala, Milan

Macbeth

by WILLIAM WEAVER

Strangely enough, Verdi's *Macbeth* has never been popular at La Scala: six productions in the last century, one in 1838 conducted by Marinuzzi, two in the post-war years (1952 conducted by De Sabata, with Maria Callas; 1964, conducted by Scherchen, with Birgit Nilsson). The latest production, which opened the present season, should give this great, difficult, uneven opera a new lease of life at La Scala.

Like the Simone Bocanegra couple of years ago, this *Macbeth* is surely destined to be revived frequently in the coming seasons. It is a presentation of the work which will bear many visits.

Musically, it could hardly be better. Some opera-lovers may have felt, beforehand, a certain apprehension concerning Shirley Verrett's Lady Macbeth. There was no doubt that this gifted and versatile mezzo-soprano could negotiate the soprano role: the notes were there. It was more a matter of interpretation. Well, Shirley Verrett proved that in addition to handling the exposed high notes, the patetis ingenuity, she can also portray the launting heroine. Most sopranos make Lady Macbeth into a mere drago, larger than life. Shirley Verrett restored her to human dimensions. To be sure, she was city frightening at the required moments, but she was also romantically a wife. At "sei vano, Macbeth," she actually took Macbeth into her arms, consoling him in his fear. Perhaps in the Brindia the were murdered, the toast was suitably hectic, while it lacked

a certain brilliance. But elsewhere, notably in her series spine-chilling "la luce langue" and the affecting sleep-walking scene, Miss Verrett was insuperable.

Piero Cappuccelli certainly has a beautiful and supple voice, but he is not always an interesting singer. On off nights, he tends to lapse into a discreet anonymity. With Verrett as his partner, however, he was obviously fired to surpass himself. His Macbeth, too, is human, real, touching. In this edition, the conductor Claudio Abbado has restored Macbeth's death-scene from the 1947 version of the opera (for the rest this was the 1955 version, with the ballet cut). Musically, this was perhaps a mistake, but it became pardonable thanks to Cappuccelli's eloquent singing of the brief and embittered passage. The rest of the cast was also first rate: Nicolai Ghiaurov, a stately Banquo; Franco Tagliavini, a lyrical Macduff. The chorus—vital in this work—sang with admirable precision and dynamic and interpretative range.

Macbeth's death-scene was always taut, even implacable, but never gratuitously fast or showy. Nor was there ever any sign of a superior attitude towards the ingenious paces. The witches sang they never cackled, as conductors have encouraged them to do lately. The rustic march accompanying Duncan's arrival was delicate and touching. This scene was also one of the high points of Giorgio Strehler's production. The band plays off stage as the wicked couple pace up and down, the king appears, the Macbeths kneel before him—all this in a mysterious half-light—and he extends his hands over them in unaware blessing. The stage darkens rapidly, and that's the last we see of Duncan. Strehler and his designer Luciano Damiani have created a gloomy world. The castle is of copper slabs (which move up and down with admirable ease, making scene-changes rapid, almost imperceptible); the landscape outside is arctic (Banquo is murdered among slabs of ice). There are some misadventures. Macbeth's letter is read not by Lady Macbeth but by an anonymous male Voice Over. Banquo's ghost is not seen (except by Macbeth), and seems to be housed in a kind of lasso which emits a cloud of feathers when the usurper falls on it. The show of kings does not awe, and Macbeth's death is overly casual. He withdraws into some bushes and emerges, dying, a few moments later. In these minor slabs (which could easily be adjusted if Strehler has a mind to tinker with his production in the future). The important thing is the general impression, the sum of the achievement—musical and dramatic. It is immense.

Purcell Room

Hiro Imamura

There was strong stuff in the Barok which the Japanese-American pianist Hiro Imamura gave us at the start of her Kirkman recital on Monday. Splendid co-ordination, powerful arm-weight, crisp articulation—almost all the ingredients necessary to give perfectly convincing performances of the eight pieces she chose from Book VI of *Mikrokosmos*. There was only lacking, sometimes, a sense of complete poetical penetration: was it my mood, or was there actually a kind of literal dryness, missing musical magic—to her account of the "Diary of a Fly"? And the ostinato accompaniment to the "March," otherwise very pungently done, is surely capable of fiercer and more interesting variation? But *Mikrokosmos* itself came across strongly, and she made a beautiful cloud, sensitively nuanced, of "Minor seconds, major sevenths."

In Beethoven's *Valzer nobles et sentimentales*, Miss Imamura's rather personal rubato tended to obscure the walk pulse too often, each time for too long. There was some elegant playing, and deft placing of inner voices; but the overall impression was a little blurred—a dance dimly perceived in a rhythmic mist.

Bach's set of 30 Goldberg Variations is one of the great epics of keyboard literature. To perform the Goldberg in public without any of its repeats is not only to reduce the length of the astonishing epic exploration from one hour and a quarter or more to less than 40 minutes, but also to blunt its dramatic impact by the power of ten—a very similar, and just as bewildering, effect as hearing Beethoven's op. 111, as I did years ago at the Wigmore Hall, played from first to last without one single repeated measure.

DOMINIC GILL

Sadler's Wells Theatre

H.M.S. Pinafore

by ELIZABETH FORBES

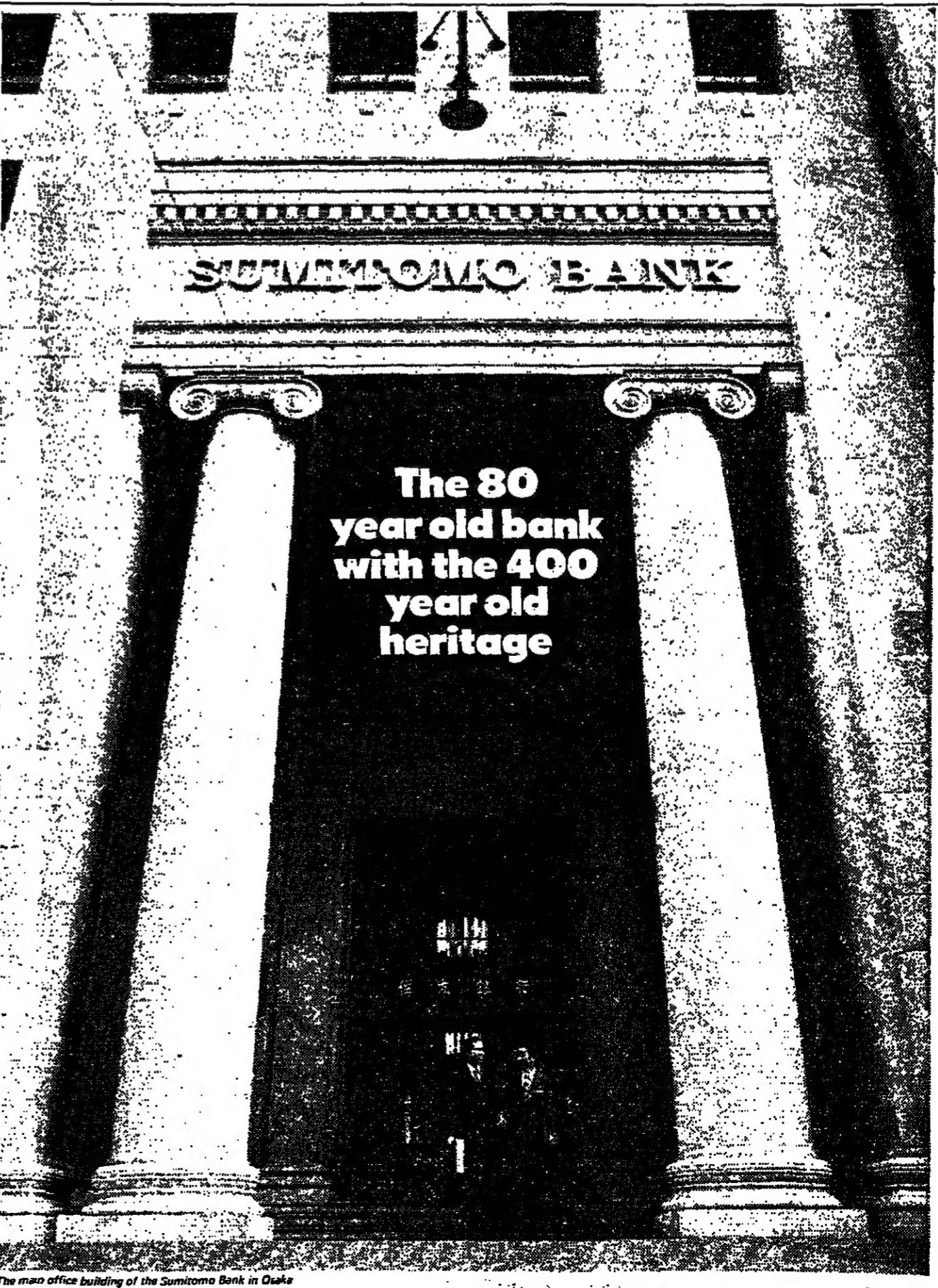
The D'Oyly Carte Christmas season at Sadler's Wells Theatre opened on Monday with a performance of *H.M.S. Pinafore*, preceded by the one-act *Trial by Jury*. Owing no doubt to the cold, foggy weather, the house was not quite full, and the audience, at least to begin with, was unusually subdued. *Trial by Jury* is a clever, witty little piece, but it needs particularly stylish playing and singing to make its proper effect. Gareth Jones, as Counsel for the Plaintiff, runs away with the vocal honours, while Barry Clark as the Defendant uses his small but pleasant voice skilfully. The Plaintiff (Glynis Prendergast) flounders about rather too strenuously, and the Learned Judge (Jon Ellison) does not get all his words across in his patter song.

As the curtain rises on *H.M.S. Pinafore* it is evident that east and audience are alike warming up. The department of the Sailing shows that this is indeed a happy ship. If their actions

are somewhat routine in feeling and inspiration, at least they are executed smartly and cheerfully. Michael Rayner is a fine Captain Corcoran, who can point Gilbert's dialogue as well as he phrases Sullivan's music. Meston Reid makes a handsome Ralph Rackstraw, rather too young-looking if it is to be all credible that Little Buttercup should have mixed him up with Corcoran in her baby-farming days. In fact, Lyndis Holland as Little Buttercup also seems a bit young herself.

Barbara Lilley, one of the company's new singers, is charming as Josephine. Her voice is not over-large but well-projected and intelligently managed. The entrance of John Reed as Sir Joseph Porter, followed, naturally, by his sisters and his cousins and his aunts, is the sign for more enthusiastic applause. Not one syllable uttered by the Lord is lost; such professionalism is wholly admirable, and Mr. Reed never—well, hardly ever—shows

the slightest sign of anything less than total immersion in his role, even at the fifth encore of the trio with Corcoran and Josephine in the second act. The trio goes very well, though one more repeat, and a certain member of the audience might have been carried off screaming. Royston Nash conducts a section of the New Symphony Orchestra with brisk competence. Michael Heyland is mentioned in the programme as Production Director. Is it wrong, after a perfectly enjoyable evening's entertainment, to feel that the Gilbert and Sullivan operas, undoubted masterpieces of their kind, have something more to offer than this? The D'Oyly Carte, like most operatic or theatrical companies in Britain at this time, is in financial straits. It would indeed be a terrible loss if the company should have to fold. We, the audience, will certainly do our utmost to keep D'Oyly Carte alive. In return, is it too much to ask for an extra special effort to keep up artistic standards?



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OVERSEAS NEWS

MPLA 'holds S. African regulars'

BY JANE BERGEROL

OUR WHITE soldiers alleged to be regular South African troops, captured on the southern Angolan front, were today presented to journalists in Luanda by the People's Movement for the Liberation of Angola (MPLA). The prisoners readily identified themselves in their names, South African army numbers and ranks and explained they were taken north of the southern front, while going to collect a vehicle for pairs.

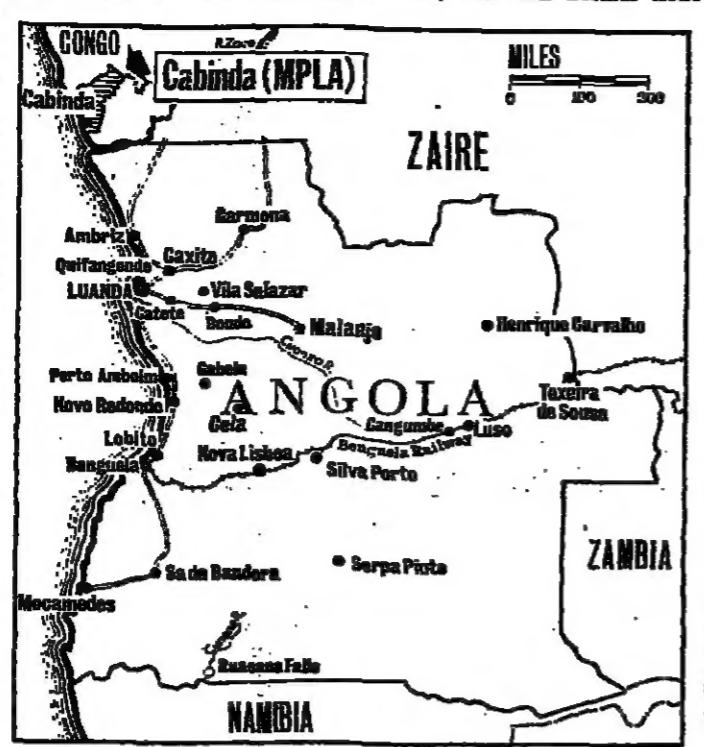
They identified themselves as: Gerhardus Terblanche, 35, South African Army No. 433230 from the permanent (regular) army; Robert (also permanent force) 35, Army No. 73354396; Graham (also permanent force) 35, Army No. 419665; and a soldier serving 12 months period, Robert (also permanent force) 35, Army No. 419665.

The four prisoners were taken to have said they had been sent to Angola in a logistical support unit to work with the MPLA against the South African Army. The unit had been sent to Angola from the Namibia border with Angola and had been sent to Angola to work with the MPLA against the South African Army.

one soldier said South African Regular troops are now controlling the frontier region.

They said they were replacing other regular South African

Cunene Dam, much further south than Cela. At Groetfontein they were reportedly issued with special uniforms for the Angola mission, but with normal issue



units which had already served time in Angola. South Africa has denied direct involvement in the war but admits to having troops stationed round the

boots and rifles. They also had to give in personal documents and fill in forms allocating them a number for receiving mail forwarded to units in Angola via

the Groetfontein base camp. There was no suggestion by the prisoners that they formed part of any mercenary force. The men claimed that there were substantial numbers of regular South African troops on the southern front in Angola under the command of a South African general, though they could not substantiate this. They named their own convoy commander as a Major van der Westhuizen.

Before their Angola mission the prisoners had been stationed at Pretoria, Transvaal and Bloemfontein and all have received their mission orders from officers and NCOs at their home bases. Dr. Jonas Savimbi, leader of the Angolan independence movement Unita, was quoted in Kampala today as saying that South African forces have moved about 94 miles into Angola but denied they were fighting alongside his movement.

Radio Uganda reported Dr. Savimbi as saying: "We are very much aware that South Africa has penetrated Angola, but since its troops are equipped with very sophisticated weapons we cannot fight them." Reuter said a Senate subcommittee, considering legislation to prohibit any military or economic aid to Angola without Congressional authorization, unexpectedly went into executive session on Tuesday for a briefing by Central Intelligence Agency officials. The panel, which originally had planned to have its hearing open, met after Senate Liberals moved on Monday to cut off any military aid to Angola. UPI

Benguela railway still intact

BY JAMES SUTTON

SPITE the fighting in Angola, the British-owned Benguela railway, which connects the ports of Luanda and Benguela with Zaire, is still technically intact, according to reliable sources in London.

Although no through trains run, there are still local services in the Lobito and Benguela area and also in areas further up, closely controlled by the MPLA or UNITA.

Recent reports from Lusaka (the MPLA) motor destroy bridges on the line in the area while their forces withdraw and are discounted because there are no signs on that stretch of the

between Lusaka and Lobito is believed to be in the hands of UNITA, while the MPLA

is thought to control the stretch between Lusaka and the border with Zaire—a stretch of about 320 km. There are conflicting reports about which side holds the town of Lusaka.

Almost all reports from Angola suggest that the rival forces have all been careful not to destroy the infrastructure of the country in any way. Although a few trucks belonging to the Benguela railway were damaged at one stage, there has been no other damage to engines or rolling stock.

It is pointed out that only rocket and mortar attacks could harm the track. The Benguela Railway company, 90 per cent owned by Tanganyika Concessions (the other 10 per cent belongs theoretically to the Government of Angola), still has a skeleton

staff in Lobito, while about 150 Portuguese-speaking Europeans are at present in Europe waiting to return.

When the railway is all in the hands of one organisation the management hopes to be able to survey it and resume through services.

One problem is that many of the Africans who work on the line have disappeared into the bush because of the fighting and will have to be lured back when the railway gets under way again.

The closure of the line to through trains—the last was in August—has caused severe problems for Zambia and Zaire. Zambia has had to declare force majeure on some copper shipments, but it is now able to use the recently opened Uthuru railway to Dar es Salaam.

Japanese recovery delayed

By Peter Dumbry

TOKYO, Dec. 16.

MORE DELAYS in Japan's business recovery are apparent from November's poor foreign trade showing and a preliminary GNP figure giving growth (seasonally adjusted) of only 1 per cent in the July-September quarter.

The impression of stagnation is heightened by revision of the April-June growth estimate to 1.1 per cent, instead of the previously published 0.8 per cent, so that it appears the economy may have failed to maintain its earlier modest headway. However, it is a moot point how the foreign trade picture can be expected to react. This is because the drop in both exports and imports continues to give the "shrinking equilibrium" that has been the main feature of Japan's payments picture since last March.

In that respect there was, in fact, an improvement in November. Exports were 14 per cent lower than a year earlier at \$4.3bn, and imports were 12 per cent lower at \$4.3bn, and imports were 12 per cent lower at \$4.3bn, so the trade surplus increased slightly from October's \$347m to \$440m. For the same reason the current account deficit was reduced to a mere \$20m, from \$135m in October.

The capital account was also stronger, with the net outflow of long-term capital held to \$180m, instead of \$330m, the previous month, and with short-term inward movements (and errors) put at \$190m, in place of \$332m. Taking all these factors into account the overall deficit was reduced to \$390m, from \$790m.

Detailed figures show exports to Britain 42 per cent lower than a year ago at \$84.5m, while imports from Britain maintained the growth of the previous two months.

Algerian troops 'land in Sahara'

RABAT, Dec. 16.

OFFICIAL Moroccan news today said that a small number of troops had landed in the Algerian Sahara, in the border between Mauritania and Spanish Sahara, and had led with Mauritanian soldiers. The report was not confirmed by the agency Maroc Agence, which did not quote any source. The report filed from the capital, El Alun, the day said, "motor launches 15 the Algerian flag landed and military material during day of December 15 in the fishing port of La Guera in the Mauritanian frontier. Serious fights followed when the elements landed by Algerian ships and regular Mauritanian units." UPI

Beirut truce takes hold

BY HSAN HUANG

BEIRUT, Dec. 16.

GUNS in most parts of Beirut were silent today as the ceasefire announced late on Sunday night was generally observed.

The Lebanese capital had one of its quietest nights in weeks even though sporadic exchanges between left-wing Muslim militiamen and the Christian Phalangists continued in some suburbs and the streets. Radio Beirut told the public to be patient because the full implementation of the ceasefire, the 18th in 10 weeks, would still take some time. In the central districts which had witnessed the fiercest fighting over the past week, the situation was calm. Muslim and leftist militiamen withdrew from their positions in the St. Georges and Phoenix Hotels, but were still deployed in strength in the sea front area.

Security forces have taken positions in these and have also moved into the "Blue Tower" on the hill in the Kautari district

from where the Leftists had directed shelling of the Holiday Inn. Today they were also moving on to the main Beirut-Damascus highway to ensure resumption of traffic there.

The main problem, however, is enforcing the ceasefire in the rest of the country. A group in charge of the truce, known as the Higher Co-ordination Committee, will deal next with the tense situation in the capital's suburbs and the strife-torn northern part of the country.

Both Muslim combatants in the northern port of Tripoli and their Christian rivals from Zgharta in the hills last night attacked Army posts and got away with military ammunition and vehicles, according to a military communiqué.

Reuter reports: Phalangist forces still occupied the Holiday Inn hotel, defying the latest ceasefire agreement which called for internal security forces to replace gunmen of both sides in the main battle areas.

MILITARY RULE IN GHANA

Bringing in the generals

BY CAMERON DUODU, ACCRA CORRESPONDENT

SPITE the huge turnover of personnel in the drastic Cabinet reshuffle announced by the late President Head of State, Col. Acheampong, this month in the more than half the Government was changed, the truce between the Col. Acheampong and the "new" administration the one it replaced, have so emerged. Ghana still welcomes foreign investment within the parameters laid down by the recent Police Decree, while foreign affairs, African and World questions remain focus of attention.

Indeed, the changes affect the red Forces—and the manner their representation in the Government—more than they do the country's administration as such. Before October, Armed Forces had ruled country through the National Redemption Council (NRC) made up of the junta that held power from the Progress Party Government led by Dr. Busia, on January 13, 1967. Top military appointments as well as State policies were decided by the NRC, sometimes jointly with executive council; a body of members of the NRC and other commissioners (ministers) who did not belong to the NRC.

Authority

It is now apparent that since NRC contained relatively minor officers, its position vis-à-vis the Armed Forces was not as secure as it once was. Top military men often called themselves "lobbying" and who had only recently under them, to obtain permanent action of one sort or another. That prompted another NRC set up on the Armed Forces Council.

advise the NRC on military matters. But this does not seem to have gone far enough, and in October, the Chief of Defence Staff, as well as the Commander of the Army, Navy, Air Force and the Guards, were replaced by Col. Acheampong to replace the NRC with a new Supreme Military Council (SMC) on which the Chief of Defence Staff, the Service Commanders, and the Inspector-General of Police, would serve, under the chairmanship of Col. Acheampong, as the highest authority in the country.

The establishment of the SMC streamlined the relationship between the Armed Forces and the Government by making it clear that it was the top man of the Armed Forces who ruled the country, and not just a "junta". But it ranked with the officers who, with Col. Acheampong, had carried out the 1972 coup. Three resigned—Col. Kwame Baah, former Commissioner of Foreign Affairs, Col. Anthony Selormey, and Col. K. B. Agbo, former Commissioner for Labour, Social Welfare and Cooperatives.

They had been retained in the Government—in an Executive Council now anomalously renamed NRC—but having perceived that this new NRC would be subservient to the SMC (of which they were not members) they chose to go, and were all retired from the Army. The end result is that while Col. Acheampong has stabilised the position of the Government by involving the Armed Forces more formally at its apex, he has vexed the services of some of his oldest collaborators. No doubt he regards this as a temporary setback to his authority firmly stamped by the new man around him. Most of these do in fact owe

their Armed Forces appointments to him, if only because he created the vacancies at the top which they were later to fill.

There have been two attempts in the past to set up a representative National Advisory Council, both of which failed to win support largely because the manner of selecting the members fell far short of the democratic ideal. One of the dogs at the University of Ghana has produced an idea that might yet attract the Government—the election of a National Consultative Assembly. The Assembly could be directly elected by secret ballot, the election campaign being conducted on a strictly non-party basis.

Assembly

Among the intellectuals it is felt that by subjecting themselves to the probes and suggestions of an elected body, the soldier ministers can only do better in their jobs. Similarly, by allowing criticism to surface legitimately in a forum established with public funds and which enjoys public support, the conditions of stability and peace would be created which are lacking whenever a military cabal—more often than not cut off even from its own base in the barracks—rules by decree and is criticised only with bated breath. Eventually, it is argued in Accra, members of the Assembly could be asked to elect some of their number to join the Government both as Commissioners and as members of the SMC, so that the vexed question of whether there should be a purely military government or a wholly civilian administration could be settled once and for all. This is important because of what happened in 1969, when the military left the scene altogether

only to reappear just over two years later.

But even if the SMC were to accept such an idea, it is difficult to tell whether civilians of the right calibre would come forward in adequate numbers to put themselves forward for election. The Government would have to provide guarantees to assure them that co-operating with the military would be "safe" and would not otherwise rebound to their disadvantage.

The new members of the administration have their job cut out to capture the dynamism with which the military approached the task of Government when they first came into power on January 13, 1972. As a result of the oil price increases, and also of what the Government has admitted was "a breakdown in the import licensing system," Ghana's import bill rose from \$480m. in 1973 to \$830m. in 1974, leading to a deficit on current account of nearly \$200m. in 1974.

To prevent a similar thing happening in 1975, it is not enough merely to cut import levels; the local production of agro-based raw materials must be stepped up. Much lip service has been paid to the need for local production of such goods in the past, yet industrial inputs continue to take a large chunk of foreign exchange earnings. The Government will also have to refuse a sense of purpose into the public service, at times of major administrative changes, simply folds up for months on end, blaming its inaction on "lack of direction" from the new men at the top.

The challenges that face Col. Acheampong, then, are many, but he has resilience and can be expected to come as close to meeting them as can be expected of any soldier in Ghana.

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How cheap is the ocean, how high is the sky?

Industrial output figures recover

BY WILLIAM KEEGAN, ECONOMICS CORRESPONDENT

WHITEHALL statisticians are for the first time prepared to back the recent claims of air political masters that the U.K. recession has been bottomed.

The latest index of industrial production for October shows a 0.7 per cent. rise on September, and a 1.2 per cent. rise on August. Between May and July, the index rose 1.5 per cent. and in August it rose 0.3 per cent. in industrial output, according to the figures.

Unreliable

Given the proven unreliability of the month-to-month indices, a more reliable figure is required. Whitehall is less important as the fact that the figures are longer showing a continuing decline.

Output fell sharply in the first quarter of this year, and for the first time it was unclear whether a reduction was continuing, or whether the bottom had really been reached.

The problem was that many of the so-called production figures were records of deliveries. During periods of rapid downturn in demand, delivery figures would not necessarily provide a good guide.

Tanker leaders frame joint demands for State action

BY JOHN WYLES, SHIPPING CORRESPONDENT

ADERS of the world's tanker industry yesterday took a historic but unprecedented step in framing joint demands for international Government action to help cut the chronic oil tanker surplus which could cost industry up to \$15bn. over the next few years.

Representatives of the four major tanker industry powers, shipbuilders, bankers and oil company managers, met at the end of a 24-hour session in London to set up a new international committee to scale down Governments the scale of the current crisis and possible remedies.

Yesterday's meeting was the first in the last three months to be organised by the International Association of Independent Tanker Owners (Intertank). The decision to set up the committee, which will be chaired by a man of "suitable international standing and authority," disappointed some of those among the more than 50 delegates from upwards of a dozen nations who had come to London for a more urgent initiative.

However, there were strong indications at yesterday's meeting that the "activist" view that a permanent "aid" should be given to restructuring an industry whose prospects had been radically damaged by the falling increases in oil prices. Many speakers were sceptical of feasibility of joint moves by industry itself, while others urged strong opposition to standing on tankers, and the

Douglas offer tied to BA jet purchase

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

THE DC-10 jet airliner, which cost \$131.8m and 10,000 jobs a period of ten years, is offered to the U.K. aerospace industry by McDonnell Douglas Corporation of the U.S. British Airways has already begun to get experience with the DC-10, through the use of earlier versions of the aircraft. The DC-10 will need in very long-range jets is believed to be about 12 aircraft. So far, the airline has not made up its mind on what to buy.

McDonnell Douglas yesterday said that if BA ordered the DC-10-30R, it would make available to British aerospace companies 30 per cent of the total work involved in the manufacture of 76 DC-10-30Rs in effect work on all the aeroplanes it would expect to sell over the next few years worldwide. Each DC-10 would cost \$27m.

Companies which might benefit from such work included Rolls-Royce, Short Brothers and Harland, British Aircraft Corporation, and Lucas Aerospace.

Chinese jets deal earns Rolls a key position

LS-ROYCE (1971) is likely to occupy a key position in China a long time as a result of its m. deal, according to Sir Keith, chairman of the engine.

The low-temperature requirements of the engine are believed to indicate that the Chinese want to put it into a combat aircraft that would have to operate in the intense cold of the Mongolian winters.

Sir Kenneth said that the terms of the deal involved a fixed price, with an allowance made for inflation, but with a ceiling on the cost of 71 per cent.

It was essential for Rolls-Royce and the rest of British industry to get the unit cost of its products down.

Dowty Fuel Systems, of Cheltenham, said yesterday that it would get a substantial contract as part of the China deal. In addition to the \$20m. for Rolls-Royce, about \$20m. will go to the sub-contractors on the engine, including Dowty, which makes the reheat fuel control system for the engine.

running some 71 per cent. below the level of a year earlier.

In public comment on the figures the Central Statistical Office is still treading cautiously, talking of a "much smaller downward movement in recent months" and of the possibility that industrial output "may now have levelled out."

Portents

Two portents of upward movements to come are: one, a marked improvement in the output of the chemical industry, normally considered an advance indicator; and two the fact that the latest Confederation of British Industry survey shows, for the first time in this recession, that more companies are expecting the volume of output to rise over the next four months than to fall.

If the upturn does take place in the next few months it will be in accordance with the various "leading" economic indicators published by the CSO, which have been pointing for a long time to a change of trend this winter.

Obstacle to foundry aid scheme cleared

BY KENNETH GOODING, INDUSTRIAL CORRESPONDENT

ONE OF the main obstacles to the success of the Government's assistance scheme for the foundry industry, aimed at helping it modernise itself, has been removed.

British Leyland has indicated that it has no intention of building its foundry capacity and will continue to rely on outside suppliers.

The foundry industry had its whole future bound up with Leyland's development plans, because, compared with the £25m. State assistance promised to the U.K.'s other 750 foundries, Leyland will be spending £50m. on its own seven foundries.

The scheme's assurance that it would not be using its resources of Government cash to increase its capacity has allowed other foundry concerns to push on with their development plans and to approach the Department of Industry for assistance.

In the four months since full details of the scheme were announced, the Department of Industry has had discussions with 120 companies out of just over 600 involved in the foundry industry, and had formal applications from 40 concerns, of which 25 are already being appraised. The rest have been asked for further details.

Joint U.K. shipping company formed

BY OUR SHIPPING CORRESPONDENT

A NEW British fleet which will account for half the world's parcel tanker capacity is to be formed by the creation of a new joint company involving the Tate and Lyle subsidiary, Anchor Tanker Service and Panoscan Shipping and Terminals.

Formation of the company, to be called Panoscan-Anco, comes at a time of depressed volume rates in the parcel trade, which is the simultaneous carriage of chemicals, edible oils, lubricants and other bulk liquids in specially compartmentalised vessels.

The merger, which does not involve any exchange of shares and assets, means that Panoscan-Anco will be operating, managing and marketing a joint fleet of 22 deep sea parcel tankers. Equal shares in the company will be owned by Tate and Lyle, and the joint owners of Panoscan—P & O and Ocean Transport and Trading.

Mortgage cuts meeting soon

BY MICHAEL CASSELL

BUILDING societies and local authorities are to meet soon to discuss the progress of the scheme under which societies have been attempting to make good the £100m. cut from council mortgage-lending programmes early this year.

Statements yesterday from the Building Societies Association and Mr. Anthony Crosland, Secretary for the Environment, both came after recent discussions between the two sides aimed at reviewing the scheme's success to date and considering the prospects for its future.

The scheme has come in for severe criticism from some local authorities, who have claimed that building societies will simply not help the type of mortgage applicant who would normally receive assistance from a local council.

Board of National Oil Corporation to be named soon

BY RAY DAFT, ENERGY CORRESPONDENT

BOARD MEMBERS of the new British National Oil Corporation will be named within the next few days and will include an ex-Minister, and probably an academic and a senior oil company executive.

The Board—all part-time members—will officially take up its position on January 1 when its first task will be to organise the structure of the State oil undertaking.

Among the names to be announced in the Commons are Lord Balogh, who recently retired as Minister of State for Energy. Other likely members are Mr. John Liverman, deputy secretary at the Department of Energy, who has been closely associated with North Sea developments; Mr. William Camp, political adviser to Gulf Oil on North Sea policy over the past two years; and Mr. Ian Clark, chief executive of Shell International Petroleum Council.

Economist

It is also believed that Mr. Monty Penning, deputy chairman and managing director of British Petroleum, and Prof. Edith Penrose, Professor of Economics at London University's School of Oriental and African Studies, have also been invited to join.

Mr. Penning would be the only initial member of the Board with direct oil business experience. Prof. Penrose has travelled extensively in the Middle East and written books such as *The International Petroleum Industry*.

Mr. Camp has had a foot in both politics, having been Press adviser to the Prime Minister in the 1970 General Election, and the energy business. He was assistant secretary of the Gas Council in 1960-63 and public



Lord Balogh

relations adviser for the Council over the subsequent four years. But perhaps the most interesting appointment is that of Lord Balogh. He is expected to be deputy to Lord Kesteven, chairman of ENOC, while at the same time, acting as special adviser to Mr. Anthony Wedgwood Benn, the Energy Secretary. Indeed, it is believed that he will be based in the Department of Energy.

This will raise the question within the oil industry about now independent ENOC will be from Mr. Benn's department. Lord Kesteven, on the other hand, has stressed that he wants the new corporation to set on commercial lines in harmony with North Sea oil operators.

Audit puts newspaper's debts at £2.5m.

By Chris Baur, Scottish Correspondent

THE WORKER - DIRECTED Scottish Daily News which went into liquidation early last month after six months of publication, accumulated debts of nearly £2.5m., according to audited figures published yesterday. The paper lost an average of about £4,600 per edition to give a total trading loss of £750,000.

In financial terms, the enterprise was "a disaster," said Mr. James Whitton, the company's liquidator, yesterday. This was his epitaph on one of the major workers' co-operative experiments encouraged by Mr. Anthony Wedgwood-Benn, the former Secretary of State for Industry.

The Department of Industry, which loaned £1.3m. to launch the enterprise last May, and Beaverbrook Newspapers and the co-operative's former employer which has an outstanding partly-secured loan of £225,000, are expected to retrieve only 50p for each £1 of their secured investment.

Creditors

In fact, the total loss sustained by Beaverbrook Newspapers is considerably larger — about £753,000.

Mr. Whitton, addressing a large meeting of creditors in Glasgow, estimated that the total realisable assets of the company (primarily the printing premises and plant) amounted to £1.2m. This was approximately £1m. less than the book value which might have been secured if the enterprise had been sold as a going concern.

Court fines Krugerrand dealer

Financial Times Reporter

CUSTOMS OFFICERS who broke a plot to smuggle krugerrands worth nearly £250,000 into Britain in breach of rules imposed in the April Budget were praised by the Old Bailey yesterday when a commodity dealer Martin David Davies, aged 35, of Bridge Hall, Burgess Hill, Sussex, was fined £40,000 for conspiring to contravene the import regulations.

Baroness Metcalfe, of Curzon Street, Mayfair, a commodity and gold dealing company, was fined £5,000 for the same offence and ordered to join Davies in paying the prosecution costs.

Financial problems facing the company—which had a £3m. turnover last year after extensive business in gold coins—were disclosed to Judge Gwyn Morris, QC, who told Davies, one of its directors, that he would go to prison for 12 months if he failed to pay the fine by June.

Davies and the company had pleaded guilty to being concerned in a conspiracy to break the Treasury import regulations between April 15 and May 5 this year.

The prosecution alleged that while Davies and two Swiss couriers, the company smuggled substantial amounts of krugerrands into Britain at that time, in spite of the Budget prohibition on the import of gold coins.

The scheme came to light when one courier was stopped at Heathrow with krugerrands in his suitcase. The Customs investigators moved so quickly that within a few hours they had found £70,000 worth of krugerrands in the boot of a Rolls-Royce car belonging to Davies, and £30,000 in banknotes which had been used to buy coins had been traced to a house in Hendon.

Compensation

Later, two Swiss youths and a Russian diamond merchant were fined for evading the rules.

But Mr. Davies claimed that he had acted only because his company had large amounts of krugerrands "frozen" in New York when the import ban was suddenly imposed.

Mr. Colin Ross-Munro, QC, for the Banque du Rhone et de la Suisse, of Geneva, asked for the money to be paid to the company retained by the court as a civil action was pending against Baroness.

But the judge ruled that the £50,000 found at Hendon should be paid to the State. The police under the normal criminal compensation rules, and that the £70,000 worth of krugerrands found in the Rolls-Royce should be forfeited to Customs and Excise.

Solicitors for the Swiss bank are considering an appeal.

'Bleak house outlook' for low-paid

By Michael Cassell

LABOUR'S "wanton campaign to destroy the private landlord" and the decision to cut local authority mortgages had left the low-paid with a bleak choice of housing, Mr. Timothy Ranson, Opposition spokesman for the Environment, said yesterday.

Mr. Ranson told the International Real Estate Federation in London that the Government's housing strategy was in ruins.

It was true that many families needed State help to pay for their housing, but it had become obvious that subsidies frequently went to the wrong people and did not give an effective choice to the lower paid family.

Scots Nationalists surge ahead in new opinion poll

BY CHRIS BAUR, SCOTTISH CORRESPONDENT

A BIG SURGE in public support for the Scottish National Party is indicated in the latest opinion poll published in Scotland yesterday.

It is the first survey of Scottish views since the Government produced its plans last month for an Elected Domestic Assembly to sit in Edinburgh with wide responsibilities for Scottish affairs.

The poll, which confirms the large swings to the Nationalists achieved in two regional Government by-elections held days after the publication of the devolution White Paper, shows the SNP to have taken a seven-point lead over Labour for the first time. Conducted among 1,276 voters in 60 of Scotland's 7 constituencies, the ORC poll for the first time to 25 per cent. now (with 31 per cent. of Labour voters favouring the system).

Support for a Scottish Assembly with limited powers and responsible ultimately to Westminster has diminished from 24 per cent. to 19 per cent. in the past 18 months.

The proportion of voters wishing to keep the present system of government has fallen from 21 per cent. to 14 per cent. in the past 18 months, while those seeking complete Scottish independence are up from 17 to 21 per cent.

IN BRIEF

£10m. N. Sea order

Howard Doris has ordered £10m. worth of equipment from two companies in Scotland for the deck of the world's largest oil platform which it is building. McDermott Scotland is to build the deck and the Scottish Group of British Steel Corporation's general steel division will supply 3,900 tons of structural steel plate.

New motorcycle

The Cotton Company of Gloucester is to produce all-British lightweight motorcycles, using a 250 cc. two-stroke engine made by DJW, of Dudley (Worcs.). The trials version is already in use. A second model featuring a road version is promised for February.

Cost of vandals

London ratepayers are probably paying millions of pounds a year merely to repair parking meters damaged by hoodlums. Mrs. Jill Knight, Conservative, Edgubaston, said yesterday.

Anti-waste adviser

Dr. Robert Berry, chairman of Alcoa (GB), is to take on a new post from January 1 as adviser to the Government on waste, with the title Director of the National

Evidence

There is also clear evidence of a growing minority of voters favouring a basically federal system of government, leaving Westminster with responsibility purely for defence, foreign affairs and international economic policy.

Support for this has grown from 15 per cent. in May last year to 25 per cent. now (with 31 per cent. of Labour voters favouring the system).

Support for a Scottish Assembly with limited powers and responsible ultimately to Westminster has diminished from 24 per cent. to 19 per cent. in the past 18 months.

The proportion of voters wishing to keep the present system of government has fallen from 21 per cent. to 14 per cent. in the past 18 months, while those seeking complete Scottish independence are up from 17 to 21 per cent.

Tuition fees up 30%

A 30 per cent. rise next autumn in tuition fees of universities, polytechnics and further education colleges, was announced by Mr. Frank Mulvey, Education Secretary, in a Commons written reply.

More hospital staff

A progressive increase in hospital staff was accompanied by a progressive decline in numbers of beds occupied daily over the period 1965 to 1973, according to the St. Michael's Organisation, a charitable body concerned with medical care.

Judge's ultimatum

Prudential Assurance Company, which has started an action to stop Newman Industries acquiring certain shares in two other companies, was ordered by Mr. Justice Gorman yesterday to state its claim in writing within 21 days—or have its action dismissed.

'Castle should go'

Social Services Secretary Barbara Castle should go, Lord George-Brown, former deputy leader of the Labour Party, writes in the title Director of the National Medical Interface.

SNOW REPORTS

Depth	State	Weather	Depth	State	Weather
(cm.)	U	P	(cm.)	U	P
SWITZERLAND					
Adelboden	12	50	Hard	Cloud	-1
Arns	12	50	Hard	Cloud	-1
Crans	12	50	Hard	Cloud	-1
Davos	12	50	Hard	Cloud	-1
Grindelwald	12	50	Hard	Cloud	-1
Interlaken	12	50	Hard	Cloud	-1
Les Diablerets	12	50	Hard	Cloud	-1
Mürren	12	50	Hard	Cloud	-1
Portofino	12	50	Hard	Cloud	-1
GERMANY					
Bamberg	12	50	Hard	Cloud	-1
Bielefeld	12	50	Hard	Cloud	-1
Bonn	12	50	Hard	Cloud	-1
Bremen	12	50	Hard	Cloud	-1
Burg	12	50	Hard	Cloud	-1
Burgundy	12	50	Hard	Cloud	-1
Burgundy	12	50	Hard	Cloud	-1
Burgundy	12	50	Hard	Cloud	-1
Burgundy	12	50	Hard	Cloud	-1
Burgundy	12	50	Hard	Cloud	-1



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The Trust Accepting Bank Limited is authorised to announce that in regard to the recent offer to shareholders of The Trust Bank of Africa Limited to subscribe for 13 441 650 new ordinary shares in the Bank at 70 cents per share, applications were received for 13 488 943 shares in terms of the letters of allocation and excess application forms.

All applications for additional shares of 1 to 200 000 have been allocated in full. Applicants who applied for more than 200 000 shares have agreed to take up such lesser number of shares as to reduce their applications by the 47 293 shares by which the issue was over subscribed.

CAPE TOWN
17th December, 1975



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Stock Exchanges throughout the United Kingdom for 4

The Executive's World

EDITED BY JAMES ENSOR

David Fishlock describes GEC's research strategy

'If you can't describe it'

THREE MEN control GEC's central research programme, the hub of a \$110m. research and development effort that straddles its 82 operating companies. One is Sir Arnold Weinstock, managing director, who, say his colleagues, has the salutary habit of asserting: "If you can't describe it to me, you probably can't do it." Another is Mr. Robert Clayton, technical director, and Sir Arnold's "technological lawyer." The third is Mr. Howard Losty, director of research, who sees his role as "instructing solicitor."



Mr. Robert Clayton

Both Mr. Clayton and Mr. Losty report direct to Sir Arnold—the only research chiefs in the company to do so. Each is frequently asked: "What are you doing about this?"—where "this" may well be a pink newspaper clipping. Their mutual relationship is more complex for, although they have adjoining offices in GEC's Hirst Research Centre in Wembley, one is engaged in managing its \$4m. central research programme while the other—unhindered by executive responsibilities—is effectively technical auditor of the entire company.

All three, however, see the 52-year-old Hirst Research Centre as the heart of GEC's technical strength, from which flows ideas, inventions, people, and which can be relied upon equally to spot long-term technological trends or to embark upon a scientific "fire brigade" operation when serious technical trouble strikes GEC.

To strengthen these roles—and above all its role in unifying the research and development effort right across the company—they have just completed the first major reorganisation of the Hirst Research Centre since 1960. The laboratories, gleaming in new blue-and-white livery, are now organised like a wheel, with materials science as its hub surrounded by five inter-relating "spokes"—engineering, telecommunications, electro-optics, micro-electronics and microwave devices.

Materials science was chosen as the hub firstly because it relates crucially with each of the other research divisions, and secondly because it is the one that GEC operating companies recognise that, if you invent a

new material, unless you are in the materials business yourself you are immediately faced by the much more daunting problem of persuading someone to make it. "We could sink a lot of money into exotic semi-conductors that wouldn't earn us anything at all."

There is a principle here that applies widely to U.K. requirements today. This is that the future lies in using existing technology in clever new ways, rather than in discovering more "solutions in search of problems."

Researchers are encouraged to spend as much time as they can talking with GEC marketing people.

Howard Losty, director of research since 1973, today has a team of about 700. A theoretical physicist of 47, he has spent his career with GEC, starting as a student laboratory assistant. For a time, as manager of central research, he had to reconcile a situation of serving no less than three bosses.

Behind a mild professional manner—in contrast with the more aggressive fast-talking Mr. Clayton—is a man of strong views about running successful research. "One thing you can never do is direct research—you have to get the sympathy of your people." The great thing, he believes, is to get people to tell you what they want to do. Even when he has decided the project must stop his approach is to try to induce the researchers to do the crucial calculations themselves, so that they come and tell him why they believe it will never work out.

But Mr. Losty claims that the most obvious reason for reluctance to stop a project—namely that someone would be out of a job—is never a factor at the Hirst Research Centre. The flexibility of the research programme itself answers the question: "What shall we do next?"

But what about the man who has devoted years to his subject and is acknowledged as one of the world's leading experts? If Mr. Losty judges that GEC can no longer support the project in its own interest but the work is still worthwhile, he and Clayton will try to place the

research elsewhere—in a university perhaps. But he adds that GEC central research nowadays tends to have a fairly short time cycle. An average programme would be three years of quite substantial effort to decide whether and which way to go. If they find themselves in the same line of research after five years they begin to ask awkward questions. An example of this intensive attack can be found in the concept of a magnetic bubble memory which burst on the world in the early 1970s. The laboratories put a team of eight into an effort to see whether some formidable technical hurdles could be surmounted in terms of a genuine GEC requirement or market opportunity. They concluded that it was neither a vital component to GEC business nor a component that was going to sell in large numbers. "And the man in charge was the main analyst in coming to the conclusion that we should stop."

Sir Arnold Weinstock requires a quarterly report on the laboratories' progress. But Losty and Clayton have devised three controls of their own for the research programme. Least formal is Mr. Losty's Monday morning "scientific meeting," when three young scientists, who have begun to make their mark in the laboratories and whose research has something in common, are given 30 minutes apiece to present their work. This is followed by the freedom for each to say what he wishes about what he is doing and how he thinks it should be treated by GEC. "But one of the rules is that nothing he says can ever be held against him," affirms Mr. Losty.

The second, more formal, is Mr. Clayton's annual review of the work of all six research divisions. Their third control is the project review, made when a project—say, the basic principles of a new kind of display—has made enough progress to examine its relevance to GEC. Mr. Clayton chooses the review panel and Mr. Losty reports where the project stands and where it seems to be going. Like Howard Losty's Monday meetings, it is informal and can be set up quickly in response to a discovery, a market opportunity, or a call from the managing director.

MITBESTIMMUNG

A very German way of doing things

BY ADRIAN DICKS IN BONN

LAST WEEK'S compromise between the West German coalition parties on further participation by workers in corporate decision-making is not going to turn the Federal Republic into a socialist "promised land." It will leave the final say over how a company is run firmly in the hands of the shareholders. And it will not give the powerful German trade unions the control they have been seeking over who exactly will sit on the workers' side of the boardroom table.

As a political event, the compromise over the issue of *Mitbestimmung* attracted a good deal of attention, intended as it was to show that the Social Democrats and Democrats, starting from diametrically different philosophical positions, could still work constructively together. But for the two sides of industry, on whose behalf the politicians had been wrangling over *Mitbestimmung* ever since the coalition came to office, the Bill that will go before the Bundestag early in the New Year leaves much to be desired.

Goal

The trade unions were forced some time ago to face the fact that their goal of equal representation for the workers in a company on its supervisory board, pursued steadily by German socialists since the days of the Weimar Republic in the 1920s, was an impossibility. An earlier attempt by Chancellor Helmut Schmidt's government to take *Mitbestimmung* to this by the Federal Constitution's articles protecting shareholders' final rights over their property.

Since then, the Deutsche Gewerkschaftsbund (DGB), the counterpart of the British TUC, had reconciled itself to the form of supervisory board that, under the Bill, will be installed from the beginning of 1977. It will consist, in every company employing 2,000 people or more, of 30 members. Ten of these will represent the shareholders and 10 the employees—as compared to the present ratio of eight to four. But in the event of a deadlock between the two sides, the chairman will have a second, tie-breaking vote. And the mechanism for choosing the chairman makes it certain that he will almost always come from the shareholders' side.

Of the 10 people sitting on the employees' side of the table, three will be nominated by the unions and six elected by the entire workforce. In smaller companies—meaning those with up to 8,000 employees—there will be a direct vote. Companies with more employees will also be able to hold direct elections, but are more likely to vote instead by an elaborate indirect system involving an electoral college whose members will be chosen at works level but who will themselves have the job of choosing the members of the supervisory board.

The tenth man on the employees' side of the supervisory board, whose exact role has been the subject of bitter argument among the politicians, will be a senior executive. Two senior executives will be nominated by their colleagues and one of these chosen by the vote of the entire white-collar workforce. This provision had also been opposed by the trade unions, both on the grounds that a senior executive could be expected to side more often with the shareholders' representatives than with his fellow-employees, and also that such an arrangement perpetuated a pernicious class division among the employees.

If all this sounds complicated enough in outline, it is a safe guess that when the Parliamentary draughtsmen have finished it will be well-nigh incomprehensible. What difference will this cumbersome system, full of checks and balances and guarantees for the protection of minorities, make to the everyday working of German industry?

Once the political dust has settled—and the Coalition is now unlikely to run into trouble from the opposition Christian Democrats on the issue—*Mitbestimmung* may well come to seem more an extension of the constructive spirit that has often characterised German industrial relations than an attempt to alter it fundamentally. There are in post-war German industrial history three important precedents to suggest

that putting employees' representatives in the boardroom is much more likely to strengthen German companies than to set them off on any radical course.

First, there has been the experience of *Mitbestimmung* in a form very like the new Bill, in the coal and steel industries since 1951. This was the era that saw the painful post-war transformation of these two basic industries and especially the enormous run-down in mining employment in the Ruhr. There is now broad agreement that the close involvement of trade union leaders in this process at the corporate level was a major reason for the smoothness with which the run-down was made.

To this must be added the experience that the unions have gained through their participation in supervisory boards under the present system giving employees one-third of the membership. While this arrangement has not been to the unions' entire satisfaction, it has been enough to give them a taste of the difficult conflict that can arise between representing their members' immediate interests and securing the longer-term health of the companies that give their members work. A case in point is that of Volkswagen earlier this year, where one of the most influential men in the German union movement, Herr Eugen Loderer, chairman of IG-Metall, sits as a member of the supervisory board that had to endorse massive cuts in manpower.

Perhaps of even greater importance has been the role of Works Councils in German industry, giving employees—and in practice, frequently union officials—a real voice at local level in matters affecting jobs. In all three of these areas, German trade union members have consistently been content to leave their interests in the hands of men whose primary concerns have been to safeguard employment and to work for higher wages and benefits. The new *Mitbestimmung* Bill will swell the ranks of those involved directly in company decision-making, yet there is little evidence to suggest that their concerns will be very different from what they have been in the past.

There appears to be relatively little enthusiasm on the shop-floor for the new *Mitbestimmung* Bill. The opinion polls have consistently shown that no more than about one person in 10 who will benefit from the Bill actually has strong feelings about the issue either way. Against this background of indifference, the political parties, the unions and the employers' associations have fought long and hard over *Mitbestimmung*. Yet their battles have been more about its form than its substance. It seems certain that given the role the unions have shaped for themselves in this country since the war, the result will be to bind them even more closely to the fortunes of the prevailing social market economy and of the individual companies that make it up, rather than to reach for an unaccustomed politicisation of industrial affairs.

Mitbestimmung, in short, is a very German way of doing things in the unique context of German industrial relations. It would be unwise for other countries to expect to transplant it without very carefully preparing the ground.

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BUSINESS PROBLEMS BY OUR LEGAL STAFF

Resolution to dismiss director

A director of a company may be dismissed by a resolution of the shareholders at a general meeting if a member gives Special Notice in accordance with S.142, and this Section provides that such Special Notice of the proposed resolution must be circulated by the Company within certain time limits to its members. Some companies have circulated such notices to members because of the obligation of the Section, although the Directors have been totally opposed to the resolution. Other companies have declined to circulate the notice on the ground that members' resolutions can only be circulated if S.140 is complied with which requires a minimum of support from shareholders. Do you not agree that such action is improper and if so would a member's action on the ground of infringement of his rights as a shareholder succeed and would only nominal damages of the order of £30 be awarded in the case of the company which has declined to circulate?

We think that sections 142 and 140 of the Companies Act, 1948 confer two separate and distinct rights on shareholders, and that a company which refused to give its members notice of a resolution of which it had properly been given special notice would be acting wrongfully, even where its ground for so acting was want of compliance with Section 140. It would be difficult to frame a claim in damages against a company which refused to operate Section 142—for want of any special damage, but an injunction to restrain the holding of the meeting for which notice of the Section 142 resolutions had not been circulated would be both quicker and more effective to obtain.

Company as farmer

Does the fact that a farmer is a company affect the company's security of tenure?

A farming company is entitled to the same protection and security of tenure under the Agricultural Holdings Acts as an individual tenant farmer.

Expiry of a sublease

I obtained a 10 1/2 years underlease for office and showroom with a rent revision after 5 years. The original sublessors then left the building and their sublease was taken over for the remaining 5 years by another firm to whom I paid the increased rent. I understand that this sublessor is giving up the tenancy but I have not been notified by the landlord, nor have I been given notice regarding my lease expiring in 5 months. What is my position?

If your original term of your sublease has not expired, it will not be brought to an end by the surrender of the leasehold interest which is the reversion

on your interest. Your sublease will continue by virtue of the provisions of Part II of the Landlord and Tenant Act, 1954, even after the date of expiry of the contractual term, until a notice in the form required by that Act is served on you and a suitable ground of opposition to any claim you make to a new lease is established (always assuming that you occupy the premises for business purposes). You should therefore continue to pay rent on the footing that your lease is continuing. If a notice under Section 25 of the Landlord and Tenant Act, 1954 is served on you, consult a solicitor.

No legal responsibility can be accepted by the Financial Times for the answers given in these columns. All inquiries will be answered by post as soon as possible.



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Stock exchanges throughout the United Kingdom for a

Wednesday December 17 1975

Recession has made a severe dent in Japan's economic might, and the authorities have been faced this year with the unfamiliar problem of coping with a serious shortfall in national revenue. For the banks and other financial institutions it is a testing time.

Naturally, the authorities cannot sit back idly after fixing borrowing limits and issuing conditions for everybody, but then have to make sure that the funds are actually subscribed. The extraordinary feature of the current funding activity of Japan is not its size alone, but the fact that it is being accomplished in this controlled (and essentially non-market) fashion.

Some features of this phenomenon are worth noting.

The public sector is apparently increasing its total borrowings by a full 48 per cent. in one year. Total long-term debt outstandings as at end-March were \$34.3bn. of government bonds, \$37.5bn. of public corporation stock and \$19bn. of local government issues.

By Peter Duminy, Tokyo Correspondent

formally granted by the Diet) to issue \$18.3bn. of new 10-year government bonds this fiscal year, the peak month so far having been November, when \$3.27bn. was raised, \$2.7bn. of it in the market (the rest being subscribed by the Trust Fund

regarded as "normal," which, however, means nothing as far as the market is concerned, only that the money is supposed to be funnelled into capital projects which may or may not be ultimately self-financing.

Informal Ministry of Finance estimates put the combined borrowing requirement (authorised of local authorities at around £17.7bn., of which \$10.5bn. is described as

ON NEXT PAGE

around \$17.7bn., of which \$10.5bn. is described as

CONTINUED ON NEXT PAGE

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JAPANESE BANKING AND FINANCE II

Awkward pressures on home sector

JAPAN'S 13 "city banks"—the banks with nationwide branch networks—have been feeling the pressures of recession like the rest of Japanese industry and expect to go on doing so. Their profits declined moderately in September for the third successive six-month business term and are expected to fall further still in March, though there could be some recovery in the six months after that.

A decline in profits stretching over two whole years is something new for the city banks, which have seen their profits as well as their deposits expand rapidly over the years in line with Japan's rapid economic growth. Coupled with the fact that the banks are not popular with the general public these days (partly because they are thought to lend too much of their money to industry and not enough to individuals, and partly because they are vaguely equated with something sinister called the "power of big business") the bad business conditions of the past year are inducing some hard thinking about where city banks are to go in future and how they should seek to adjust their role in Japanese society.

The reasons for the profit decline of the last business term can be summarised without difficulty. The Bank of Japan started to reduce its discount rate in April, and by November had lowered the rate (in four successive steps) by two and a half points from 9 to 6.5 per cent. City bank lending rates declined in line with bank rate. The rates are in fact subject to ceilings set by the Ministry of Finance and the Bank of Japan, so the banks were obliged to cut their rates whether they wanted to or not. Deposit rates, however, remained static (also under Government guidance) for six months after the first cut in the discount rate. These were only finally reduced, by a margin of 1 per cent, for longer term deposits, at the beginning of last month.

The freeze on deposit rates applied during the summer, and the rather small cut eventually approved in November, was the result of understandable political pressures.

Bank deposit rates are already a good deal lower than the rate of increase in the cost of living, so that the vast majority of Japanese citizens who put their savings into bank deposits are getting a negative return on their money. The Government did not wish to make their rate still more negative at a time when static increases in real wages and a record unemployment rate were already depressing the Japanese public. The banks thus had to take a cut in their profits—and may continue to have to accept narrower deposit-lending margins than they have been accustomed to.

Another burden on the banks

PERCENTAGE SHARE OF TOTAL BANKING ASSETS		
	March, 1975	March, 1966
City banks	29.1	23.8
Long-term credit banks	7.8	7.6
Local banks	19.4	19.5
Trust banks	11.7	9.7
Mutual loan and savings banks	8.9	9.0
Credit associations	11.3	9.2
Life insurance companies	7.4	6.6
Fire insurance companies	1.9	1.2
Central Agricultural Co-operative Association	2.5	3.4

this year—though not such a heavy one as some of their anguished reactions have implied—will be that of absorbing a large proportion of the "deficit-covering bonds" to be issued by the Government in order to close a budget deficit of record proportions. The city banks, together with the three long-term credit banks (Industrial Bank of Japan, Long Term Credit Bank of Japan, and Nippon Fudosen Bank), have been allotted a 48.5 per cent share of the ¥5,500bn. Government bond issue scheduled for the current fiscal year.

Negative

A large part of this burden will be (or already has been) taken off their shoulders in the form of open-market operations by the Bank of Japan and a lowering of reserve requirements. However, the holding of Government bonds involves a cost for the city banks in the form of a negative margin between the rate at which they acquire and dispose of bonds. There is also a fear that the Government will have to make another, even larger, issue of deficit bonds next year and that it could be less easy to absorb.

The short-term worries of the city banks include another very what to do about the chronically loss-making companies Nursing these companies, which include a few major household names, through what remains of the recession will constitute one of the banks' main responsibilities over the next six months or so. Yet on a longer view it seems that the role of the banks as the main source of capital (and often also the main source of advice and guidance) for private industry may be tending to diminish.

The accompanying table shows that the total amount of funds deposited with city banks has been falling for the past ten years as more Government expenditure has been concentrated at the regional or municipal level in Japan and more deposits have gone into local banks and

other small financial institutions. This trend will continue when the economy moves into its predicted moderate growth phase after the present recession and will be matched by another much newer development.

Japanese industry will need less capital for expansion during the moderate growth era. It will also want to get a smaller share of its total funds from banks than it has done hitherto because future rates of growth may not be enough to enable companies to carry the burden of borrowing most of their capital. A final factor tending to reduce the importance of bank lending to industry will be the recently introduced control which directly limits the lending any one bank may undertake to a single corporate borrower.

Any of these factors will take time to have its full effect. Banks and their clients have been given five years to conform to the individual lending ceilings (which will eventually prevent a bank from lending more than the equivalent of 20 per cent of its capital and reserves to a single client.)

There are also some loopholes in the controls, such as the fact that a foreign subsidiary of a Japanese company (for example, the U.S. subsidiary of a trading company) can borrow from the overseas branch of a Japanese bank outside the 20 per cent ceiling imposed on the parent company. But the leading ceilings, which are essentially a concession to anti-monopolistic public opinion and to what is now fairly standard practice in other countries, will eventually weaken the financial bonds between the banks and private industry.

Many people in Japan might say that the weakening of such bonds will come none too soon. The banks currently lend only 7 per cent of their deposits to private individuals. But the requirement to shift some of their lending out of the corporate sector, which seems to be dictated both by the pressures of public opinion and by economic trends, provides a challenge which could affect the long-term profitability of banks. A greater stress on housing and other consumer loans is probably inevitable and desirable, but will alter the balance between long- and short-term lending, which at the moment has about 65 per cent of city bank loans going into loans of less than one year.

Another avenue for the expansion of city bank business in the long run will be overseas. Japanese city banks now derive on average, about 10 per cent of their profits from overseas business (compared with more than 50 per cent for some major American banks). But development of overseas business cannot be rushed, partly because the time needed to acquire the necessary know-how and part because the Bank of Japan and the Ministry of Finance are cautious to allow headlong expansion of Japanese bank abroad.

Most Japanese bankers are convinced that rationalisation and/or mergers will become increasingly necessary as the banks move into the post-recession era. So far as corporatisation is concerned, the scope is by now fairly limited since Japanese banks have carried computerisation of the deposit and transfer business, far as or further than any other banking industry in the world.

The field in which scope for rationalisation does exist (as is probably inevitable) is as a service to the consumer. The official control of interest rate, which prevents banks competing for deposits by offering to pay more for them, forces the industry into "service" competition. This includes such things as dispatching bank staff customers' homes to pick up small amounts of money, telephoning customers who deposits are made to the accounts and so on.

Mergers

The scope for mergers in Japanese banking industry is obvious from the figures. Apart from the 13 nationwide city banks Japan has 63 local banks (most of them confining their operations and branch network to a single one of Japan's prefectures), seven trust bank three long-term credit bank 73 mutual loan and savings banks, 471 credit associations and 495 credit co-operatives.

Pooling the financial resource of some of these bodies would seem to be one way of creating a more viable banking industry (especially since some sectors of the banking industry such as the local banks tend to be permanently oversupplied with funds while the city banks are chronically short of cash). But the theoretical case for merger in any Japanese industry has been seen in the context of a situation on the ground—in banking this is not very durable to rapid consolidation. The big city banks are probably already too big to merged with one another, without inviting public resentment against the supposed "amass" of corporate power. The part regional bases of the local bar on the other hand argue against effective mergers unless they carry out a reform of its financial system resulting fewer and larger units of 10 government.

Charles Smi
Far East Ed.

Money gap

CONTINUED FROM PREVIOUS PAGE

"normal": probably nearly half of this will come from the Trust Fund Bureau, which is allowed to lend money to local governments as well as buy their bonds. This segment is not a direct burden on the market, obviously, but must nevertheless be counted as part of the overall funding exercise.

Public Corporations, which had issues of ¥8.5bn. last year are expected to repeat this scale of funding (most of the stock will be privately placed).

All this gives a combined total for the public sector's long-term requirement this year of ¥4bn. That is not only 48 per cent of the cumulative sum outstanding, but is also to be seen against total demands on the long-term market (that is, including all corporate issues as well), of ¥33bn. in 1974-75.

Needless to say this situation has been on every banker's mind for the past few months, with each waiting to see how the burden would be spread. Of course, there may be a risk of over-dramatising some of the difficulties.

Crowding is not a problem, partly because private sector requirements are down this year, but also because there are plenty of ways in which the monetary authorities can increase the overall availability of funds (those already employed have included lowering of the banks' compulsory reserve requirements, operations of the Trust Fund Bureau already mentioned, and also purchases of securities from this agency sanctioned by officialdom) in by the Bank of Japan, effectively replenishing its (that is, maintain prices) and keep securities moving along the line from issuers to primary subscribers (mainly the banks) Japan, because they are not expected to subscribe to the holders, without too much public debt or hold portfolios money, being lost, along the way.

Trade-offs

No financial institution holds more of these than it has to, or for longer than it has to, because there are far more profitable ways of investing money, including acquisition of first-class securities in the secondary market. While this has always been the situation in Japan, and there has long been a system of compensating trade-offs, it is not always obvious that these will work in present conditions. For instance, most local governments are supported by local banks which in turn have the official business of the local communities concerned. Now the situation is that borrowings are so big that local banks cannot carry them unaided, but also, in view of the unattractive yields, cannot expect other financial institutions to rally round.

In another direction, the authorities have unleashed considerable pressure on the secondary market (in which there can be no changes in mentioned, and also purchases of securities from this agency sanctioned by officialdom) in by the Bank of Japan, effectively replenishing its (that is, maintain prices) and keep securities moving along the line from issuers to primary subscribers (mainly the banks) Japan, because they are not expected to subscribe to the holders, without too much public debt or hold portfolios money, being lost, along the way.

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Eager to win more business abroad

EVER EAGER to attract new business abroad and to enlarge their operations on a global basis, Japanese banks continue to press the authorities of the Ministry of Finance for permission to open new offices overseas. And despite a general policy of restraining such activities in light of the general international recession, the Finance Ministry has been allowing selective advances abroad on a more or less steady basis. This process can be expected to continue for at least another year or so.

As a recent case in point, two Japanese banks are now in the process of establishing an international commercial banking facility in Brussels in co-operation with a European financial group known as the "Euro-arteries" and composed of four European banks. It all goes well with the arrangement, the Long-term Credit Bank of Japan and Fuyo Bank will be tied up with France's Credit Lyonnais, West Germany's Commerzbank, Italy's Banco di Roma, and Spain's Hispano-Americano.

In an unusual development, 0 per cent. of the capital of the venture will be provided by Japan's Long-term Credit Bank, 10 per cent. by the four European banks. This will be the first time for a Japanese banking institution ever to enjoy majority holding in a joint venture in Europe.

The Japanese see the underlying as making it extremely convenient for their banks to out loans in the European market. It will certainly enhance the current standing of Japanese banking operations in the region.

Another result of the latest move will clearly be increased pressure on Japan's banking institutions to seek additional concessions from the Finance Ministry. Tokyo's leading bankers for many months now have been contending that the country's exporters are increasing their business with markets outside the U.S.—especially in the European area and in the Middle East—and that this situation is rapidly changing the pattern of Japan's trade.

"As we see and evaluate such developments," commented one leading executive of a major

JAPANESE BANKS ABROAD (as at November 27, 1975)			
	Branches	Subsidiaries	Representative Offices
U.S.	37	12	14
New York	17	3	5
California	15	7	—
Others	5	2	—
CANADA	—	—	8
CENTRAL & SOUTH AMERICA	3	4	14
Brazil	—	3	11
Others	3	1	3
EUROPE	37	6	20
U.K.	19	—	4
West Germany	12	—	2
France	1	—	—
Italy	1	—	—
Switzerland	—	2	1
Others	4	4	5
ASIA	24	—	27
Singapore	5	—	7
South Korea	4	—	1
Hong Kong	4	—	8
Others	11	—	11
OCEANIA	—	—	12
Others (Africa and Near/Middle East)	—	—	16
Total	101	22	111

Source: Ministry of Finance.

Tokyo bank early in December, "it is now necessary to advance our presence not only in the financial centres of Europe but also in the Middle East as well." He suggested that the authorities in Japan should take this into account by relaxing somewhat the current restraints imposed on excessive movements overseas.

But to some extent it is easy to understand why the cautious authorities of the Ministry of Finance plan to maintain their controls over advances by the country's bankers in financial markets abroad.

In November it was disclosed that Japan's banks maintained 101 branch offices overseas, 111 representative offices and 22 subsidiaries. Although spread mainly in Western Europe and North America, there are also a growing number of these facilities in Asia, Central and South America, Oceania, Africa and the Near and Middle East as well.

Admittedly, however, outside of the financial capitals of

Western Europe and North America, most of the Japanese banking facilities in overseas areas are merely representative offices. This situation is bound to change to some degree as their operations increase in sophistication.

Persistent

The persistent gap that continues to separate the Japanese banking efforts in international markets from their more experienced foreign competitors is, in fact, one of sophistication. Yet this gap is closing at a fairly rapid rate. Differences in approach or even understanding which have tended to exist in recent years undoubtedly have been a prime source of tension, division and distrust.

In their usual way, the Japanese now are meeting these challenges and finding ways to soften criticism on both sides. The "Japan rate" spread which developed in 1974 when Japanese banks were borrowing Eurodollars, for example, is no

longer resulting in premiums of 0.5 to 2 points.

Prime banking names in Japan which once had to pay such premiums, much to their embarrassment, now are being quoted about the same rates as any other big international banks. But lesser known Japanese banking institutions are known to be facing premiums of 1 or 1.5, still a form of discrimination in Tokyo eyes, yet something Japan's bankers can live with.

To a considerable degree, it was the Finance Ministry officials who took the matter in hand, warning the country's bankers to "cool operations" abroad where necessary. Undoubtedly, though, the situation improved largely as a result of the success in Japan in which Japan's economy reacted to the oil crisis.

To-day, few of the major Japanese banks are looked upon in overseas money markets as anything but excellent credit risks. This situation has removed limits to their borrowing powers and encouraged them to innovate in meeting the needs of their clients.

Significantly, Japanese banking operations overseas are earning unusually high profits in a period of global recession. Yet sharp profit rises are being registered by the nation's banks as a result of strictly domestic operations. The difference, of course, is the strict controls on interest charges maintained by the Government in Japan; but also playing a role in such matters is the business which stems from the activities of the huge multinational.

To one degree or another, all of the major Japanese banks engaged in expanding their activities abroad are heavily involved in financing business connected with third country trading or investment. This tends to place a prop under their business in times of poor economic conditions and accelerates the tempo during normal periods.

There are some deviations to this general picture of well-being. Banking branches in regions outside Japan but not located either in Western Europe or Northern America have yet to receive authorization by Finance Ministry officials to issue certificates of deposit (CDs). The single exception is Singapore branches. This situation, in fact, works to prevent the branches from raising funds at profitable rates and is proving a difficult competitive problem. The feeling in Tokyo is that this situation is distorting the business profile of the branches by forcing them to borrow at relatively higher cost and limiting capacity to obtain funds on a short-term basis to some extent.

Syndicate

And although Japan's overseas bankers are handling increasing amounts of medium-term and long-term syndicate loans for governments other than their own, in addition to the ordinary activities of such banking facilities, they remain in some ways uncertain newcomers to the field of international money operations.

None the less, Japanese bankers are obviously intent on expanding their operations throughout the world, believing that in the long run such activities will prove to be extremely important and, an excellent point, clearly essential to the continued success of Japan's trade and economy.

Using the very latest Japanese projections for their banking community, it is evident that the fledgling advances will continue and that efforts to enlarge and consolidate international financing operations will pay off eventually by moving Japan into the ranks of the world's major capital exporters.

Other optimistic predictions going the rounds of Tokyo banking circles these days include one which claims that before 1980 it is most likely that the country's foreign investments will be launched upon a rapid expansion programme. A decade from now, according to these same forecasts, investments abroad will approach \$45bn, or \$47.5bn.

The anticipation in the Japanese capital is that, with Japan second in foreign investments following the U.S. and displacing Britain, the nation's banks will have every reason to expect to assume a leading role in global financing. But even the pessimists among the Japanese bankers, who tend to consider this rosy telescope view as wishful thinking, are willing to stand behind that same growth figure when the date of accomplishment is advanced to 1990.

A. E. Cullison

Organization of Sparkassen, Landesbanken/Girozentralen in the Federal Republic of Germany



Public Savings Banks

The German savings banks (Sparkassen) are legally and economically independent credit institutions. They are communal savings banks operated under public law. The savings banks' liabilities are guaranteed without limitation by the respective communities (town, country), whereby all deposits held by a savings bank are fully secured. The business of a savings bank is directed by its managing board.

The supervisory body of a savings bank is the board of administration, on which the general public and the local government (a town, a country or several communities) are represented. Their tasks and activities are laid down in the articles, which allow the savings banks to do all usual banking business for their customers. Transactions for their own account are subject to some limitations to secure the deposits, e.g. savings banks are not allowed to acquire securities out of their own funds.

In addition to the communal savings banks there is also a small number of "free savings banks." These are savings banks without a local government as guarantor. Contrary to the communal savings banks the free savings banks are subject to private law (in most cases as associations or trusts).

The savings banks offer all services of a modern banking institution. Their services are available to every private individual, every business enterprise and every local authority. The following are the most important forms of business transacted: the acceptance of all types of deposits, credit business of all kinds, encouragement of the acquisition of personal property, settlement of cashless payment transactions and all other types of banking services, e.g. transfers to payees in Germany and abroad, collection of debts, bills and receipts, execution of cheque transactions and issue of cheque cards, purchase and sale of foreign currency and travellers' payment media caring for the need of customers in the field of foreign trade transactions.

At the end of 1974 there existed in Western Germany 700 savings banks head offices with more than 16,000 branches.

Savings Banks Associations

The savings banks of each federal state are united in regional Savings Banks Associations. The tasks of the regional Savings Banks Associations are, among other things, to represent the common interests of the savings banks; to offer information and advice to the members of the Associations in all matters of savings banking; to train staff members of the savings banks and to further their professional education; to examine the handling of business and the balance sheets of the member savings banks. At the head of the regional Savings Banks Associations is the Deutsche Sparkassen- und Giroverband in Bonn (German Savings Banks Association). It is the centralised representative of savings banks interests and corresponds to the savings banks associations on the regional level. It is the spokesman of the savings bank system in the public sphere and also to the Federal Government and parliament. Through its board and committees it influences the co-ordination of the savings banks and Landesbanken/Girozentralen, which are also its members.

Landesbanken and Girozentralen

The 12 Landesbanken and Girozentralen in the Federal Republic of Germany are operating under public law, like the savings banks. Their liabilities, i.e. also the deposits maintained with them, are guaranteed by the regional Savings Banks Association, individual Lands of the Federal Republic or big communal associations. The business is directed by a managing board and the general management is supervised by the board of administration.

The Landesbanken and Girozentralen are the central banks of the savings banks. They act as clearing houses for the savings banks' national cashless payments. They hold the liquid reserves of the savings banks within their area of activity and effect the regional balancing of funds among the savings banks. Moreover, the Landesbanken and Girozentralen

transact all customary banking business, e.g. granting short, medium and long-term loans to industry, commerce, trade and public authorities; in many cases they provide loans jointly with the local savings banks.

The Landesbanken and Girozentralen are entitled to make issues. They issue mortgage and municipal bonds. In addition to security and stock exchange dealings the services provided by the Landesbanken and Girozentralen include foreign business in all its fields. To an increasing extent the Landesbanken and Girozentralen participate in international money and capital transactions, and, in particular, in the business of international financing.

The Landesbanken and Girozentralen assist the savings banks in their foreign business, for which purpose the maintaining of relations with foreign banks is of particular importance. On the other hand, the extensive network of branches of the German savings banks organization is utilised by foreign banks through the Landesbanken and Girozentralen.

The standard DM travellers' cheques of the German savings banks organization issued by the Landesbanken and Girozentralen and the savings banks show as drawee, Deutsche Girozentralen-Deutsche Kommunalfbank, Berlin and Frankfurt am Main.

Building Societies

Along with the savings banks and the Landesbanken/Girozentralen there is a third group constituted by the 13 public building societies. These are institutions specialized in housing finance. Contractual savers with these building societies form their own capital which benefits in Germany from State premiums or tax relief. The building societies grant loans to their customers at favourable rates of interest with which to finance the building or purchase of their own home and land.

Deposits and basic Capital Resources

The German credit business is sound. In the Federal Republic there is a well-balanced structure of private commercial banks, co-operative banks and credit institutions operating under public law, with special and general functions. The biggest Group among the credit institutions operating under public law is that of the savings banks (Sparkassen) and of the Landesbanken/Girozentralen. Every single deposit in these institutions is fully backed by a public guarantee. The guarantor for the savings banks is the respective local administration. The deposits of the Landesbanken/Girozentralen are guaranteed by their owners, who are usually the executive of the respective Lands of the Federal Republic and the respective savings banks.

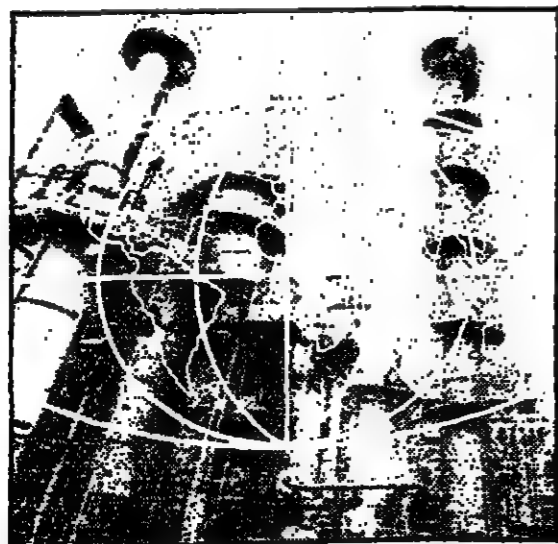
The sources upon which the savings banks draw to set up their own capital is their net profit, after deduction of tax. The Landesbanken and Girozentralen draw their basic capital resources from the allocation of their profits to reserves and from the allocation of the guarantors, i.e. of the respective State Governments and of the regional Savings Banks Associations in those Lands of the Federal Republic. While the private banks are able to set up their own capital in different ways (issuing of new shares, participations) the savings banks are prohibited by law from doing so. The basic capital resources of the Landesbanken/Girozentralen and of the savings banks are modest in comparison with that of the private banks.

But this is not detrimental to their business transactions because the guarantee provided by the cities, communities and states have a net worth function which cover the liabilities of the Landesbanken/Girozentralen and savings banks.

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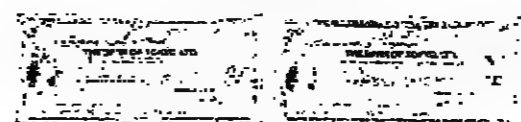
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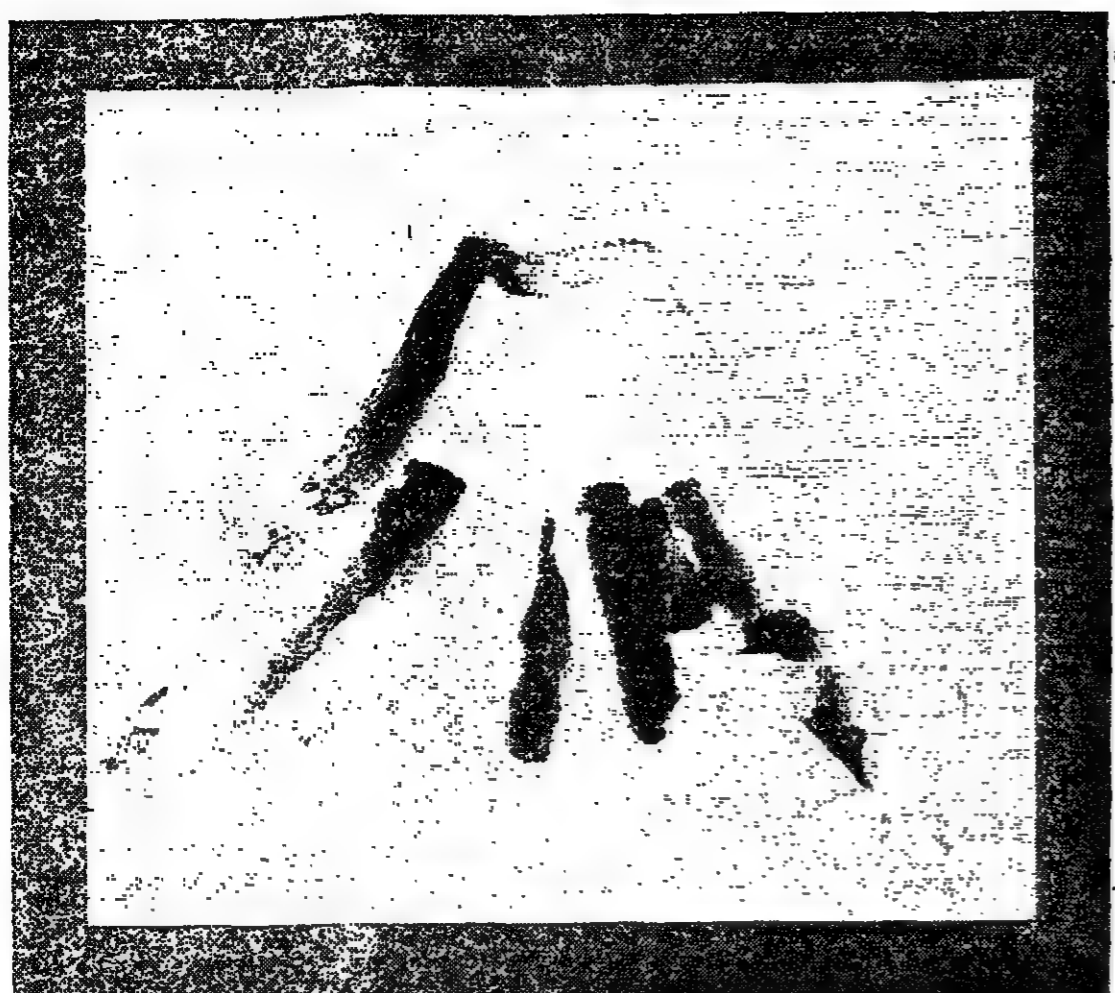
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JAPANESE BANKING AND FINANCE IV

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THE 50 FOREIGN BANKS with branches in Japan represent an extremely diverse industry. They range in size from the American "Big Three" (Bank of America, First National City and Chase Manhattan, with assets in their Japanese branches ranging up to ¥850bn. (£1.36bn.) to recent arrivals from developing countries whose assets are still well under ¥10bn. The longest established foreign banks, the Hong Kong Bank Group and Algemene Bank of the Netherlands, have been in Japan since before the country officially opened its doors to the outside world in the Meiji restoration in 1868. The latest arrival is the Osaka branch of the Banque de l'Indo-Chine, which opened earlier this year.

All or nearly all of the foreign banks, except possibly a few of the smaller newcomers, are likely to look back on 1975 as one of their best business years in Japan. Japanese industry has been continuously short of funds and thus only too willing to borrow from foreign banks as a supplement to its normal flow of funds from the domestic banks.

For most of the year there has been a comfortable, and sometimes a generous margin on the cost of borrowing dollars and swapping them into yen on the one hand and the income obtainable from lending yen to Japanese borrowers on the other.

Foreign bankers in Tokyo are reticent about profit levels but the figures available suggest that a bank in or near the top ten (but not among the American top three) could have earned at least ¥600m. (nearly £1m.) on its operations for the year ending last September. Next year is unlikely to be as good, partly because the cost of dollar-yen swapping operations has risen and is likely to remain high. But profits will

THE TOP FIFTEEN FOREIGN BANKS IN TOKYO

	(Total assets ¥ bn.)	March, 1975	Sept., 1974
Bank of America	821	818	
First National City	748	828	
Chase Manhattan	702	694	
Morgan Guaranty	150	123	
Continental	142	157	
Manufacturers Hanover Trust	103	89	
Algemene	92	80	
Deutsche Überseeische	84	66	
Barclays International	76	65	
Chemical	70	60	
Korea Exchange	67	65	
Hongkong and Shanghai	66	59	
First National of Chicago	66	36	
Dresdner	65	47	
Chartered	62	52	

probably still be enough to relending the yen to Japanese customers can be a highly profitable operation when U.S. or Eurodollar interest rates are low, and Japanese rates are high and when the forward dollar (which the banks buy as a hedge) stands at a discount on the Tokyo foreign exchange market.

Six months ago, the cost of obtaining swapped yen was about 8.5 per cent, compared with a prime rate of around 13.4 per cent, when the funds were lent on to Japanese borrowers.

Weakening

The generous margin on swap operations has now almost completely closed, thanks to the weakening of the yen (which entails a premium for forward dollars) and the decline of interest rates inside Japan. A foreign banker estimated early in December that he was earning

ing a margin of around 1.5 per cent on his swap operation. Despite this narrow margin the dollar-yen swap will continue to be an important source of fun for foreign banks in Tokyo as they will no doubt continue to do their best to secure a large share of the total. The quo was increased earlier in the month, by some \$300m, for the first time since August last year.

However, the uneven distribution of the swap quota meant that some banks re much more heavily than others on this form of financing. For established banks on the Tokyo scene such as Algemene Bank Chartered and the Hong Kong Bank group are believed to enjoy generous swap quotas (although the actual figures are a jealously guarded secret).

Barclays International, on the other hand, arrived in Tokyo only three years ago and before the recent increase was still the basic 18m. level so far its swap quotas were concerned. Deutsche Überseeische, another fairly recent arrival among the top ten foreign banks who also has a smallish swap quota have until recently been able to build up their yen loan operations by raising funds on the local bill discount market. The foreign banks, however, have temporarily ceased to be able to use the bill discount market because of the hard which has been placed on it the financing needs of local banks which will shortly have to start absorbing budget deficit-covering bonds issued by the Japanese Government. As an alternative source of funds foreign banks have been admitted to the market where rates are c

CONTINUED ON NEXT PAGE

International loans

FOREIGN borrowing in the Tokyo capital market, which was resumed this summer after a suspension of nearly two years, is likely to be slowed down again, as Japan's balance of payments has deteriorated and the Japanese Government's own borrowings are increasing sharply. A plan for using more yen for Japan's foreign trade, which depends heavily upon dollar financing, will also have to wait until the foreign exchange reserve position improves.

Finance Ministry officials say that more than 20 foreign governments and international organisations are on a waiting list after Finland and New Zealand raised a Yen 10bn. bond each in July and October respectively this year. However, it would be very difficult to approve another issue at this time, because the Japanese Government itself must borrow a great deal for its deficit financing.

Underwriter sources believe, however, that it would be impossible for Japan to close her capital market to foreign issuers again, when so many Japanese companies are actively floating bonds in overseas markets and expect to borrow even more in the future, as they are crowded out of the local bond market because of increasing public borrowings. They believe more foreign issues will be approved in the Tokyo capital market in 1976.

During the 1970-73 period, when huge amounts of dollars flowed into Japan to create large surplus liquidity, 13 yen bonds were floated by foreign issuers in Tokyo. They comprised six by the World Bank, three by the Asian Development Bank, and one each by Australia, the Province of Quebec (Canada), Mexico and Brazil.

The total value of the 13 issues reached ¥164bn. The coupon rates ranged from 6.9 per cent to 8.25 per cent, while issue prices were from par to 99. Yields to maturity ranged from 6.900 per cent to 8.353 per cent. Two bonds were for seven years, five for ten years, three for 11 years and another three for 15 years.

The first yen bond floated by a foreign issuer—the seven-year, 7.4 per cent, ¥8bn. bond of the Asian Development Bank—was bought 80 per cent. by Japanese banks and 20 per cent. by individuals and corporations. Banks have constantly bought about one-third of the amount of each subsequent issue, while smaller financial institutions, such as credit associations, purchased about a quarter on the average. The remainder were mostly subscribed to by smaller investors, whose share reached a peak of

54.2 per cent. in the case of the ¥20bn. sixth World Bank issue of 1973.

Opening of the Tokyo capital market to foreign issuers was considered to be a way of encouraging outflow of dollars from Japan at a time when the yen was steadily increasing its strength because of heavy dollar inflow. An urgent seven-point external economic programme, adopted by the Japanese Government in May, 1972, to avert a second revaluation of the yen, had a clause "to strive for smooth floatation of yen-denominated bonds by issuers of internationally established reputation such as international institutions and foreign governments."

Discourage

The Japanese Government also wanted to discourage foreign issuers from holding the yen as a reserve currency. For these reasons foreign issuers were asked by the Japanese Government to convert the yen proceeds of their bonds into dollars "as soon as possible," the only exception being the ¥10bn. Australian Government bond of 1972, part of whose proceeds was allowed to stay in yen for a while.

Another form of raising funds from Japan, which was actively used during this period, was the floatation of bonds through private placement. A total of 55 bonds worth \$US1.1bn. was issued in Japan in this way between May, 1972, and March, 1974. They comprised 42 U.S. dollar bonds, seven yen bonds, four mark bonds, one Canadian dollar bond, and one French franc bond. The issuers comprised three international institutions, six governments, nine government organs, three provincial governments or organisations, ten private financial institutions, and 24 corporations.

During about the same period, four foreign stocks worth U.S.\$36.54bn. were sold in Japan through private placement, while 23 others were partly placed here. Fourteen foreign stocks were listed in the Tokyo Stock Exchange to facilitate Japanese investors trading in them, to seek publicity for their names, and to prepare for future raising of funds here.

The market was closed to foreign issuers, except for listing of shares which was only slowed down, towards the end of 1973, as Japan's balance of payments began to deteriorate following the oil crisis. It was cautiously reopened this year, as it became apparent that Japan had overcome her balance

of payments crisis caused by a larger oil import bill. Mr. Taorichi Yoshida, Vice-Minister of Finance for International Affairs, said at the time foreign issuers would probably be permitted to float yen bonds in the Tokyo capital market at the rate of one issue a quarter.

But the first issuer, the Government of Finland, had to wait until market conditions improved relative to Western markets, where interest rates were substantially lower. The ¥10bn. 12-year issue was floated in July with a coupon rate of 9.25 per cent, and issue price of 99 to yield 9.42 per cent to subscribers on maturity. The second issuer was the Government of New Zealand, which floated a ¥10bn. 12-year, 9 per cent. bond at 99 in October to yield 9.087 per cent. Underwriter sources said the latter issue was not so successful, because it tried to anticipate a decline in interest rates here.

In the summer of 1974, when Japanese banks had difficulty in rolling over their short-term borrowings from the Eurodollar pool Vice-Minister Yoshida said Japan might be able to use more yen for its external trade instead of continuing to borrow dollars so heavily. (Total Jap-

anese short-term borrowings dollars from U.S. banks are estimated at more than \$US3.30bn.)

During the first half of 1975 it looked as though Japan was seriously planning to shift foreign trade finance, particularly import finance, to yen creating a local market specifically for this purpose with help of the Bank of Japan. However, Mr. Yoshida said in summer that the Ministry studied various plans for the purpose in the past but none of them had been found practical for the time being, although he still believes that 20 per cent. to 30 per cent. of Japan's foreign trade should be conducted in yen. (Net all of Japanese imports: about 85 per cent. of Japan's exports are currently financed with dollars.)

Similarly, opening of Tokyo dollar call market to resident banks, another form of "internationalisation" for Japanese capital market, have to wait indefinitely. In this respect, Tokyo still lags behind Singapore, where Asian dollar market is developing fast.

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Company profits take a knock

THIS YEAR has been a disastrous one for Japanese company profits, probably the worst year that many companies can remember if the chaotic period immediately after World War II is excluded. Estimates of the extent of the disaster vary according to source—and to some extent according to the point of view of the estimator. But it is certain that one in three companies quoted on the first section of the Tokyo Stock Exchange will have reported a current loss (that is, a loss on operations plus the cost of financing) once all results are in for the six-month business period ending last September.

The Bank of Japan, in a recently completed survey covering a wider range of companies (but still excluding many thousands of medium and small companies) found that 46 per cent of those surveyed were in the red during the six months ending in September.

A comparison of the six-month period with the previous business term (ending last March) shows company profits down by 59 per cent, but the March business term itself showed an estimated 47 per cent fall from the previous term ending in September, 1974. Bank of Japan revised estimates, which was itself worse than the March, 1974, business term. To complete the deluge of depressing statistics loss-making companies quoted on the first section of the Tokyo Stock Exchange reported a combined total of ¥278bn losses for the six months ending September compared with the previous term's figures of ¥115.7bn. Forty-two large or medium-sized Japanese companies have now accumulated losses greater than their capital.

The reasons for this year's sad results are easy enough to catalogue. Japan's economy actually shrank by just under 2 per cent in the fiscal year ending March, 1975, and has shown only minimal growth since then. The result for most industries has been a steady sales decline and a low operating ratio.

Japanese companies are used to high growth, which means that most of them carry a relatively costly interest burden on their borrowed capital. They are also committed to the "lifetime employment" system, which means that they cannot dismiss their workers when demand falls. Broadly speaking, industry has two ways of coping with the kind of situation it is faced this year—the first is to draw on reserves and a second to borrow still more money from the banks. Most of Japan's deficit-ridden industries have been able to do the first method. The steel industry, for example, which has combined losses of more than ¥50bn during the six months ending September, was still able to show a profit at earnings level (and to de-

BIGGEST GAINERS AND LOSERS

(September, 1975, business term—Ybn.)

	Results for six months to Sept. 30	Results for six months to March 31	% Increase
GAINERS			
Automobiles	64.4	39.2	64.5
Electric power	116.6	88.4	31.9
Electric machinery and appliances	43.9	41.5	5.6
Non-ferrous metals and metal products	2.1	0.9	141.0
Fishing	1.9	0.2	1,067.0
LOSERS			
Iron and steel	-54.6	+137.2	
Oil products	-41.9	-32.2	
Textiles	-35.2	-32.7	
Chemicals	-17.0	+25.4	
Paper and pulp	-12.1	+1.8	

Figures are the net outcome of combined profits or losses of all companies within the industry which have quotations on the first section of the Tokyo Stock Exchange.

Source: Yamachi Securities Company.

clare normal dividends) by drawing on tax free reserves accumulated in happier days, or by selling securities.

The degree to which companies can ride out the recession by drawing on reserves depends, however, partly on how big their reserves are, and partly on the marketability of assets such as securities or land. The further big sales of securities by the steel industry which are anticipated during the current six month business term could have a depressing effect on stock prices. The same sort of effect has already become apparent in the real estate market.

Rescue

Companies which have exhausted their reserves (even in some cases to the point of mortgaging office buildings) have resorted to the second "safety net" in the Japanese corporate finance system which is to beg for help from the banks. The help has usually been forthcoming when the company concerned already has a strong link with a single bank (or in some cases with two or three "main" banks). In some cases banks have had to mount "rescue operations" involving large infusions of extra money, special interest rates etc., to help major client companies from going under. But there have also been cases where help has been refused.

The collapse in August of the Kohjin Company with ¥150bn of debts was an instance where a group of major banks refused to undertake a rescue operation in the full knowledge that their action would mean the collapse of the company. Since Kohjin there have been many more bankruptcies. Indeed, the monthly bankruptcy rate in October and November was running at record post-war levels.

There have not, however, been any more "first-class" failures on the scale of Kohjin and the assumption is that there will not be.

The reason for this is that the Bank of Japan and the major city banks (and no doubt most other people involved in trying to sort out Japan's economic problems) have come to the conclusion that "rescue operations," even quite highly publicised ones, are for the time being preferable to large-scale business failures. Most major banks in Japan are believed to have at least two or three candidates for rescue among their clients. They can count on getting support and encouragement from the Bank of Japan if the situation of such companies becomes desperate.

The future trend of company profits (meaning in practice their trend during the current six months business term, ending next March) is likely to be better. This is because production is now rising gradually in most industries and because prices increases which were impossible to impose during the period of very deep recession are now being introduced gradually for a number of products.

But opinions on how much better profits will be tend to vary considerably. The Bank of Japan in a quarterly economic review published earlier this month estimated that net profits of major companies (that is, profits less losses overall) would show a 32.7 per cent rise during the March, 1976, term over the September, 1975, level. Most private sources regard this as an optimistic figure. What is clear in any case is that profits will still be low by comparison with any normal year in pre-oil crisis Japan and that profit performance will be extremely uneven.

The steel industry, whose size normally gives it a very major impact on the overall profit level, is likely to do marginally worse in the March term than it did last September. But the deterioration will probably be very slight so that the industry's performance will be a neutral factor in influencing the overall swing in company profits.

Industries which have turned the corner and whose results should be significantly better next March include electrical goods, chemicals, food, and paper and pulp. Those which could continue to get worse include oil refineries, cement and non-ferrous metals. There are likely to be very significant differences, however, between companies within the same industry reflecting the different policies which companies followed in coping with the early stages of the recession and the degree of their dependence on bank credit and other factors.

The phenomenon of profit "polarisation" within an industry began to be noted in the September business term (for example in the electrical industry Hitachi almost doubled its profits in September while those of Toshiba were approximately halved). Many observers feel that gaps between the performance of individual companies will be an increasingly common phenomenon as Japanese industry pulls out of the post-oil crisis depression into the moderate growth period which is forecast for the remainder of the seventies.

Impact

The low level of company profits has had a direct and serious impact on Japan's national budget, because the Government's revenue from corporate taxes has fallen very sharply. Quarterly figures for tax receipts from business show that in the second quarter of 1974 revenue was still running no less than 59 per cent higher than a year ago, but by January-March of 1975 the year-to-year rise was only 5 per cent, and by the third quarter of this year it was down by 45 per cent.

The huge budget deficit which has appeared as the result of the corporate tax shortfall will be bridged by a special issue of deficit-covering bonds for which the Government has been seeking legislative approval this autumn. Deficit-covering bonds are regarded, however, as a once-only solution to the deficit problem and will not be used again if the budget deficit repeats itself in 1976.

The consensus is that company profits will take some years to get back to the level of before the 1973 recession, and that the Government will have its work cut out to find some permanent means of filling the resulting gap in its finances.

Charles Smith

Fruitful

CONTINUED FROM PREVIOUS PAGE

only some 2 per cent lower than on the but discount market. A further source of yen financing comes in the form of deposits with foreign bank branches by Japanese city banks at this has tended to be of importance only to very recently established foreign bank branches or to those whose business operations outside Japan are of particular interest. It is Grindlays Bank, which runs a small but highly profitable operation in Tokyo based chiefly on Japanese bank deposits lent on a handsome 6½ to Japanese industrial borrowers. Grindlays, which used to have made a 21 per cent profit after tax this year, recently got special treatment from the Tokyo banking community because of its strong position in the Middle East. A form of Japanese business which does not involve yen lending is the so-called "im-ct loan" or general purpose foreign exchange loan to Japanese industrial borrowers. It is returned to favour early at year after Japan's balance payments started to feel the weight of higher oil prices. In fact loans, which tend to run five years and are normally secured by rolled-over short-term borrowing on the Euro-dollar market, became popular in the early days of Japan's economic miracle when the country was chronically short of foreign exchange. They are popular again today with industries such as steel (or, in 1974, electric power) whose profits are under a temporary squeeze.

The impact loan business is subject to tight Bank of Japan controls, both on the monthly amount of guaranteed (by Japanese banks) and unguaranteed loans which can be induced into the country and on the margin which the lending bank charge over and above the London inter-bank offer rate (LIBOR). Foreign banks, however, have ways of circumventing the Bank of Japan's controls on lending margins, usually by demanding compensating deposits from their customers. These have had the effect of making the impact loan business considerably more profitable than the Bank of Japan officially intends it to be.

When impact loans were resumed early in 1974 after a gap of several years the margin over the LIBOR rate was initially between one-half and three-quarters of a per cent. The margin rose to a maximum of 2 per cent in late 1974 when funds were scarce and Japanese companies were particularly avid borrowers. It has now settled back in the region of 1½ to 2 per cent for top quality borrowers.

The problem of assessing who is, or is not, a reliable borrower has been a major headache for foreign bankers in Tokyo during the past year, although some foreign banks may feel that they should have worried more about creditworthiness in the past. One leading European bank branch in Tokyo had partially unsecured loans outstanding to Kohjin Company when it failed in August. Another had lent unsecured to Chori Com-

pany, but had succeeded in obtaining security before Chori became the object of a widely publicised and large-scale rescue operation in September.

The creditworthiness problem has tended to force bankers back on to the three basic principles in assessing their potential clients. They must either be very big, or they must be showing an operating profit, which 40 per cent of Japanese companies failed to do in the six months ending September last, or they must be closely connected with one of the big commercial and financial groups (such as Mitsubishi, Fuyo, etc.). A good deal of attractive business has probably had to be turned down in the past few months by bankers who stuck to these principles, but those who did so no doubt suffered fewer sleepless nights when the monthly bankruptcy rate for Japanese companies broke its previous post-war record in October and November.

Surprising

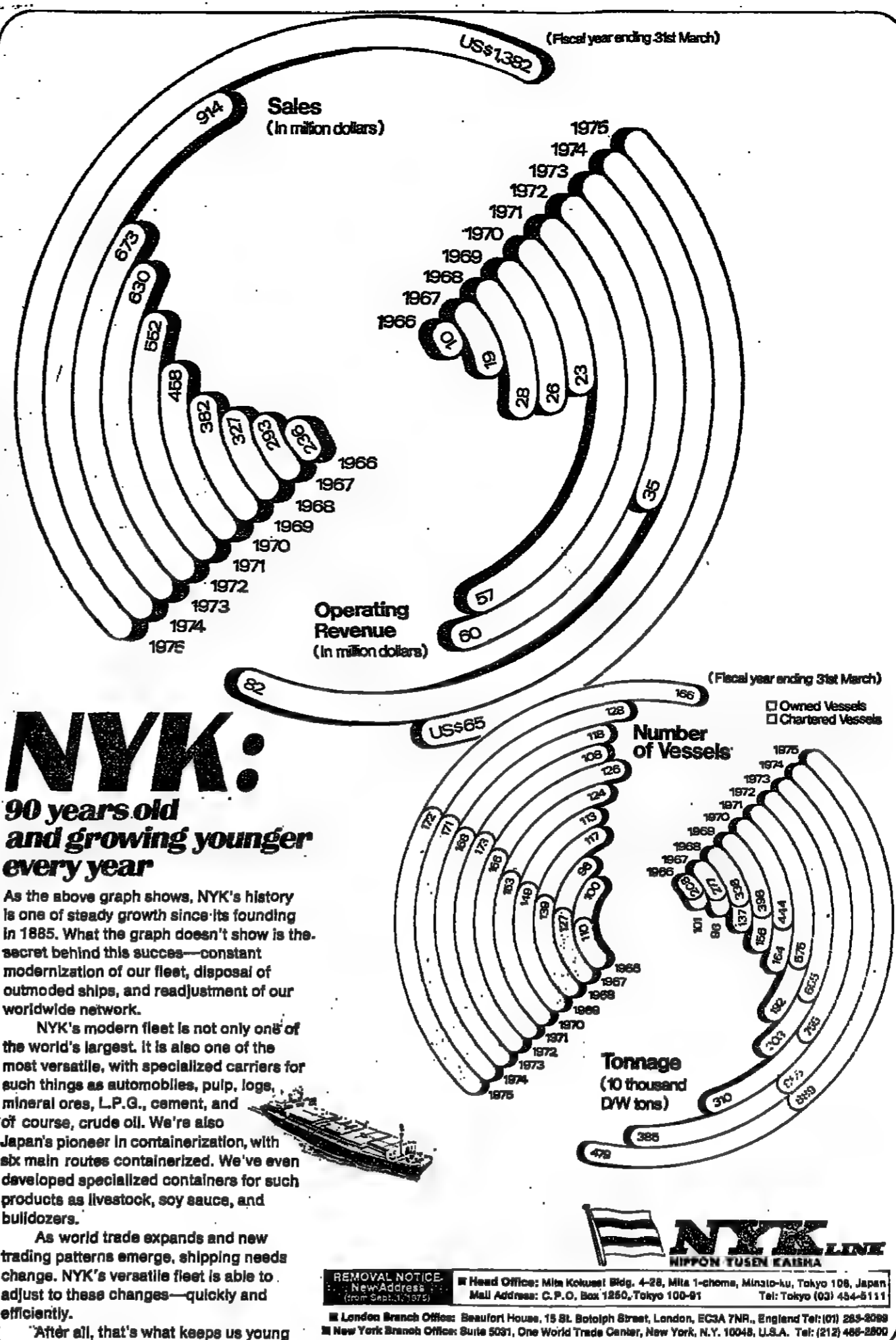
Given the size of Japan's financial market and the profits which can sometimes be earned in it, it may be regarded as surprising that there are not more foreign banks, with more branches, in Tokyo and other major Japanese cities. The reason that the foreign bank presence in Japan remains relatively limited (although much bigger than five years ago) is that the Ministry of Finance continues to follow a restrictive policy towards the opening of foreign bank

branches with strict though unadmitted adherence to the principle of reciprocity where there are controls in other countries.

Tokyo has no Australian or Canadian bank branches, although banks from both countries have applied to set up in Japan, because neither the Australian nor the Canadian Government will allow the establishment of foreign bank branches on their territory. All recently arrived foreign banks are restricted to a single branch in Japan, although the Ministry of Finance has recently raised eyebrows by allowing the Banque de l'Indochine, which has had a branch in Tokyo since the early 1950s, to open a second one in Osaka. There are cases of an insistence on one-to-one reciprocity between Japan and a foreign country such as the current instance where Japan is refusing to allow Credit Suisse to open a branch in Tokyo, because Switzerland has refused to admit more foreign banks (including Dai-ichi Kangyo Bank) to open in Switzerland.

Japan's addition to controls (not only on foreigners but on its own nationals) would seem to rule out the possibility of Tokyo gaining the stature as a financial centre that London now has, or that Hong Kong and Singapore aspire to. But the sheer size of Japan's economy will continue to make it a place where every major foreign bank feels that representation is obligatory.

Charles Smith



Getting the stimulus into world markets

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Strong savings flow

IN JAPAN the personal savings ratio to net income after tax has been increasing in spite of the two-digit year-to-year rise in consumer prices. This attitude on the part of depositors is entirely illogical when viewed against interest rates which are far lower than the rate of inflation. (For example, the rate for a one-year deposit is only 6.75 per cent.)

According to a survey made by the Prime Minister's Office, the average savings ratio (in this case, savings include everything except consumption—that is, deposits, cash in hand, repayment of borrowings, etc.) of all working class households reached 24.3 per cent. in 1974, compared with 22.5 per cent. in the previous year. The ratio this year is expected to keep to the same level as last year, as the ratios of wage bonus seasons (June-July and December) tend to be lower than a year before but those of other months have been relatively higher.

The savings ratio has been consistently rising for the past ten years from the 17.2 per cent. of 1965, except in 1971 when the ratio was a little lower than the preceding year. The Japanese have not changed their savings habit during the present inflation-recession period; rather has the habit been encouraged by the global recognition of shortages in energy and resources.

The Japanese are far and away the biggest savers in world terms. In second place are the West Germans with 12.2 per cent. in 1973. Why is this so? There are four main reasons for the high savings ratio of the Japanese.

First, the rise in wages has been so rapid that it outstripped consumption expenditures. In other words, people's habitual expenditures did not increase as much as their income did. In particular, the growth of twice-yearly wage bonus was rapid as companies were wise enough to put their profits into bonus pay-

ments, keeping salary levels relatively low. Most of the winter bonus, is saved, while the summer bonus tends to be spent on leisure and entertainment.

Secondly, there is a need for people to save because of the lack of welfare services. A questionnaire conducted last summer by the Saving Promotion Central Committee revealed some of the motivation behind saving. The predominant 83.2 per cent. of those questioned replied that they were saving against a rainy day and illness; 55.3 per cent. for children's education and weddings; 38.1 per cent. for their old age, and 30.2 per cent. for the purchase of land and homes.

So if the welfare system were fully equipped and they did not have to worry about illness or old age, the Japanese would probably not save as much as they do. In Japan, contributions to social welfare are considerably smaller compared with other developed nations.

For instance, the ratio of per-

sonal taxation and social welfare payments to total personal income was only 13.3 per cent. (in 1973) in Japan, while it was 20.2 per cent. (1972) in the U.K., 25 per cent. (1972) in West Germany, 32.2 per cent. (1972) in Sweden, and 20.7 per cent. (1973) in the U.S.

Thirdly, there is a tradition of thrift and saving in Japan. The Japanese are hard workers and in general live frugally. For a long time the Government compelled people to work hard to catch up with the more industrialised nations. The money saved was invested in plant and equipment and contributed tremendously to the rapid growth of the Japanese economy.

Lastly, depositors received favourable tax treatment. Personal deposits up to ¥3m. are tax-free, and deposit interest is taxed separately from other incomes.

In addition to these factors, the current recession and the gloomy outlook for the economy have further promoted the saving habit in the minds of the Japanese. Even the lowering of the interest rates on main deposits by 1 per cent. from November 4 did not have much influence on deposits. What happened was not that depositors withdrew their money after the interest rate decline, but that they increased their deposits as much as possible before November 4.

As a result, the expected consumption recovery did not materialise. In past recession periods, revival of personal consumption has given a lead to recovery, but this time consumers are not loosening their purse strings. Though department stores are now crowded as normally at year-end periods, people are buying carefully.

An economist in a Government agency has concluded that such a saving attitude is not a temporary phenomenon any more, and so should be built into economic forecasts.

Though the Government expected some consumption recovery as a result of the reduction of deposit interest rates, it was not the main purpose of the reduction. That was to lower actual lending rates and to stimulate business activity, as without lowering

deposit interest rates, lending rates did not decline.

The Government also promotes saving, particularly through the Postal Savings Office. Postal savings deposits amounted to ¥19,098bn. at the end of March last, far exceeding the deposits of the world's largest bank of America (ab \$50bn.). This large total deposits is directed by Finance Ministry to house construction, improvement environment, welfare, education, finance for small industries, agriculture and fisheries.

Obliged

Other than these ordinary savings, not a few companies are more or less obliged to deposit part of their wages with the company's internal savings accounts. This system, called "shamaji" job, is practised in about half of all companies with more than 300 employees through Japan. These internal deposits totalled ¥2,682bn. at March 1.

The system was originally introduced as a measure of compulsory transmission of portion of employees' salary to their parents. Thus, employers tried to tie the employees together with his family to company. Later, the system was developed as a welfare policy for companies. Companies used pay far higher interest than bank rates on internal deposits and lend funds for, say, housing to an employee who deposited his salary. But when recession comes the system changes character and virtually free part of employees' wages. Depositors usually do not draw money from the account, except at retirement, marriage, housing, or some other special occasion when they badly need cash, for fear of giving management an unfavourable impression.

With a large part of income being thus directed both compulsorily and voluntarily into savings, cash in the pocket of the individual Japanese is much limited.

Atsuko Chi

Aid programme hits snags

JAPAN'S FOREIGN aid programme blossomed spectacularly during the early 1970s when the economy was growing at more than 10 per cent. a year (in real terms) and exports were bringing in a massive foreign exchange surplus.

The total of private and official flows to developing countries in 1973 reached \$5.8bn, which was well over double the level of the previous year and made Japan the second biggest source of funds for the developing world after the U.S.

Like many other things, the aid programme took a beating after the 1973 oil shock: indeed the figure for total flows in fiscal year 1974 (ending on March 31 this year) fell almost back to where it had been two years earlier. This very simple

picture of what has happened to Japanese aid in the past two years can, however, be misleading unless the various elements making it up are examined separately.

What actually happened last year was that the flow of "private" Japanese money (meaning trade credits and investment) fell off very sharply indeed, to less than one-third of its 1973 level, while Government aid of the type recognised by the OECD as "Official Development Assistance" registered a 10 per cent. increase.

The Ministry of Foreign Affairs, which is the most actively involved of four major Japanese Government departments concerned with aid, hopes there will be another rise in official aid this year of the order of 10 or 12 per cent. (in nominal terms) which will mean that aid should just about maintain its admittedly modest share of the Gross National Product. Next year, when the GNP expands by an estimated 15 per cent. (again in nominal terms), the specialists at the Foreign Ministry are hoping for a marginally greater increase in the aid programme.

The fact that Japan's aid programme did not suffer total collapse in the aftermath of the oil crisis can be put down to two main factors. One is the "pipeline effect" which means that government loans to developing countries recorded as "aid disbursements" in a given year actually reflect decisions and commitments made two or three years earlier. There was a great increase in planning and initiation of new aid programmes from 1972 onwards much of which is bearing fruit to-day.

The second factor which has kept the programme going is Japan's fear of criticism by aid recipient countries and other donor countries.

Government.

Although Japanese aid compares poorly with the efforts of most other developed countries it bears comparison well in one respect—the proportion of loans and grants extended to the poorest developing countries. Some 57.5 per cent. of Japan's official aid goes to countries with per capita incomes of \$200 per year or less while 85 per cent. of the total goes to countries with per capita incomes below \$375. Since about 62 per cent. of the population of aid receiving countries fall into the \$200 or less per capita income bracket Japan's lending to the least developed nations is roughly in proportion to population, which is far from being the case with, say, the French foreign aid programme. Japan can thus afford to relax when the subject of aid to least developed countries is taken up at the OECD.

On all other topics concerned with aid the Japanese expect to be criticised both by other donor countries and by recipients. But the current posture of the Foreign Ministry on the face of such criticisms is less defensive than the outsider might expect. The Ministry feels, rather strongly to judge by the statements of some officials, that recipient countries must show more appreciation of the aid they are already getting if it is to argue their case effectively with the Ministry of Finance. The same point is applied to the misuse (or non-use) of Japanese aid funds, of which the Ministry has a distressingly large number of examples on its file.

C. S.

poorly

The Foreign Ministry is acutely aware of the fact that the terms on which Japan extends its aid, as measured by the grant element formula, used at the OECD's Development Aid Committee (DAC), compare rather poorly with those of other donors. Japan scored a 61 per cent. rating under the grant element formula last year compared with 90 per cent. for the U.S., 86 per cent. for the U.K. and 84 per cent. for West Germany. In order to improve its rating the Government needs to increase both the share of outright grants in total official aid (this actually fell sharply last year, because of the running out of some post-war reparation agreements) and to lower interest rates and lengthen repayment terms on official loans to developing countries.

None of this is particularly easy to achieve at a time when foreign exchange is in short supply and the domestic budget, out of which allocations have to be made to aid-giving agencies, is in chronic deficit. The quality of Japanese aid is, however, not the only problem or even possibly the most serious one. On a quantity basis Japanese official aid currently amounts to 0.25 per cent. of GNP which is far below the (admittedly idealistic) target of 0.7 per cent. set some years ago by the Pearson Commission and, more to the point, a good way below the average for all donor countries of 0.34 per cent. The Foreign Ministry has been campaigning recently for a set of guidelines which would bring Japanese aid closer

to "average" international standards by the end of the decade. The Ministry of Finance, which has to approve the disbursement of aid funds, is against any long term commitments in aid policy.

The Foreign Ministry guidelines which were at one point to have been announced by Prime Minister Miki as a formal Japanese commitment at the Rambouillet summit, would call for Japanese official aid to reach the DAC average as a percentage of GNP by 1980, and to "approach" the DAC average in quality as measured by the "grant element" yardstick by the same date. There was a cabinet meeting before the Rambouillet summit at which Mr. Miki was told summarily by Finance Ministry officials that the time was not ripe for aid commitments. But the issue is not dead even though the Ministry of Finance is attempting to take the position that any increases in the allocation for foreign aid in the national budget must be balanced by cuts in Japan's domestic welfare spending.

One probable development over the next few years is the expansion of the soft-loan Japan International Co-operation Agency which set up shop in 1974 with loans carrying interest rates of 1 or 2 per cent. designed for the financing of long range infrastructure projects. The JICA, which is entirely financed through the national budget, is currently operating at only about 10 per cent. of the level of the other government sponsored overseas lending agency the Overseas Economic Co-operation Fund. The OECD, financed half-in-half by the budget and by postal savings funds, lends at rates starting from 3 per cent. and constitutes the main outlet for soft loans by the Japanese Government.

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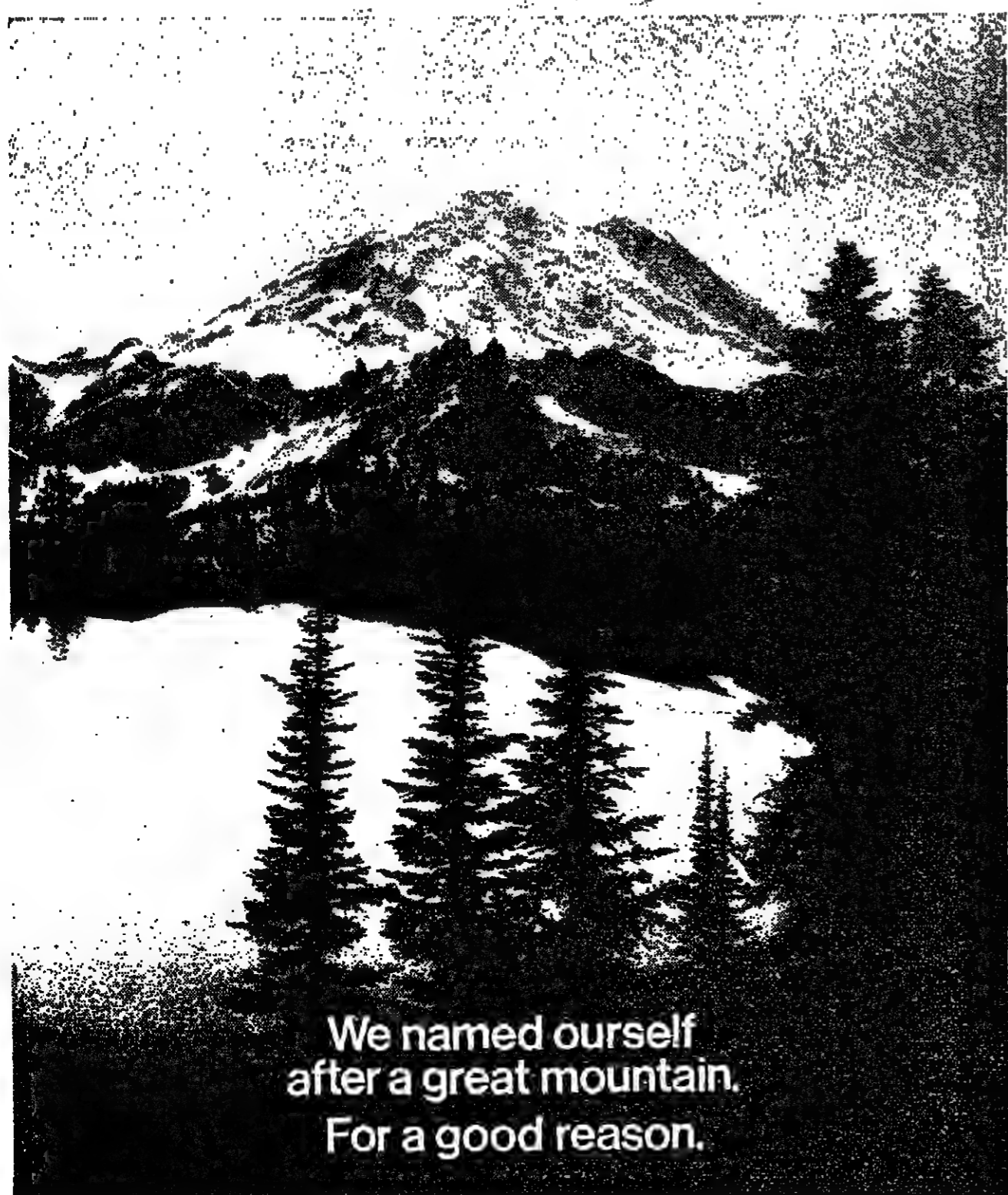
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U.K. merchant bank presence

AT THE end of this year, the number of British merchant banks with representative offices in Tokyo will drop from four to three, when Hambros puts up its shutters in favour of running its Japanese business from London and Hong Kong.

But this lowering of their effective profile should not be interpreted as proof that, in general, the four have been suffering lately. For despite the admitted difficulties of operating in what one merchant banker here describes as a "very restricted environment," object to rigid control by the Ministry of Finance, the banks appear to have enjoyed a good year in 1975, and are not complaining.

Hambros itself has certainly lost its interest in Japan. On the contrary it feels it is well established in Japan to be able to expand its business through visiting executives rather than through formal presentation. Many other merchant banks have so far kept the same line. Senior management staff from such leading houses as Rothschilds, Warburgs, Hill Samuel and Morgan Grenfell are regularly sent through Tokyo in attempts to tap the enormous potential of the Japanese market.

The three which have taken plunge—and are staying—Kleinwort Benson, Schroders and Baring Brothers. Though their executives here are to be tight lipped about the details—as befits heads of representative offices, which have no status in Japan—their activities fall into the three categories of portfolio investment management, underwriting of Japanese external issues, and ordinary commercial banking business.

Mainstay

It is logical to deal with the first, since it is clearly the mainstay of the banks' operations. As far as direct lending to Japan is concerned, activity has been restricted to "impact" loans—medium-term foreign currency loans backed by the Japanese government, usually, but not always, guaranteed by a major Japanese bank.

The Japanese banks have been set by the Bank of Japan limit the amount of such loans they may guarantee for their clients. But Japan's foreign exchange controls were extensively liberalised last year to allow payment of Japan's resented oil bill—and the limit has been raised to a high level ever since. According to Finance Ministry, impact loans made in the first ten months of this year totalled \$2.2bn, compared to \$2.2bn in whole of last year. Simply put, the limited balance at size, the merchant banks are not free to compete directly with a large slice of this business with the full branch offices of the giant U.S. and European

commercial banks. Merchant bankers' descriptions of their role range from "very small" to "negligible." But it is clearly not negligible in terms of the banks' own scale of operations.

Officially, the highest lending margin permitted on these loans is 1 per cent, above the London interbank offered rate. But it is no secret that this rule is circumvented through the payment of "compensatory" reverse deposits to the lending bank, raising the effective interest on the loans.

Problems

This can create technical problems for banks with only representative offices in Japan, since they must take the deposits in foreign currency abroad. Japanese companies are not allowed to hold dollar accounts outside Japan, so the payments must be made by a bank on behalf of the company. And sometimes, the Bank of England's guidelines on capital-to-deposit ratios can make it difficult to take on more inter-bank deposits—even if they are free. By comparison, the full branches of foreign banks here can take the deposits in yen, which they can lend out locally.

The Ministry of Finance is clearly unhappy about this flouting of its rules, but in the interest of enabling Japanese firms to obtain necessary financing, it has so far turned a blind eye. Late last year and early in 1975, effective margins stood as high as 2 per cent, and even more in the case of smaller borrowers.

Competition among Japanese firms for loans from foreign banks was fierce at that time, as they sought to diversify their sources of borrowing under prevailing tight money conditions at home. More recently, however, demand has slackened, and impact loans have become a "hot" market. One merchant banker said that margins have now become "fairly tight" at slightly over 1 per cent, although he felt they could widen again next year on increased loan demand as the pace of Japan's economic recovery quickened.

Apart from the induction of loans into Japan, the merchant banks obviously regard Tokyo as a highly important client base from which to set up trade financing and loan business with Japanese firms operating abroad. A loan may be made from the London head office of one of the banks, for example to a Japanese/Brazilian joint venture, and the actual deal signed in Sao Paulo. But the impetus may well have come from Tokyo.

All four of the merchant banks with offices in Tokyo at the moment have established links with leading Japanese banks. Hambros is tied up with Mitsu, Baring Brothers with Sanwa, and Kleinwort Benson with Fuji. Schroders has got together with Mitsubishi Trust and Banking, the two plan to set up a joint bank in Brussels, probably by around the middle of next year. Morgan Grenfell, without taking the step of open-

ing up in Japan, has also formed a joint venture with Japanese banks called Tokai-Kywa-Morgan Grenfell Limited.

These links, of course, are vital in another main area of activity for the merchant bankers—bond underwriting. The Japanese banks mentioned, especially the first four, Mitsu, Sanwa, Fuji and Mitsubishi, are all key members of enormous industrial groupings in Japan, giving the merchant banks linked to them an inside track when it comes to management of external bond issues for companies affiliated to the groupings.

The huge capital requirements of major Japanese companies cannot be met within Japan, even though credit curbs have gradually been lifted. Since the end of 1973, when a ban of almost three years on foreign bond flotation was finally lifted, issues have climbed sharply. Last year, a total of 15 issues were completed for a total amount equivalent to \$285m. The pace really began to be stepped up after November last year, when the Finance Ministry began to allow the proceeds from foreign bond issues to be converted into yen for domestic use. This year, according to the latest available figures, issues have soared to \$1, with a total value equivalent to \$1.55bn.

Of this last total, \$260m represented issues made in the U.S. of the remainder, \$510m was raised in dollar-denominated bonds in the Euro, Arab and Asian dollar markets. The balance, apart from one issue for \$150m, comprised Swiss franc and German mark issues, which totalled, in dollar terms, a remarkable \$413m and \$344m respectively.

The merchant banks' share in this bonanza has been predictably modest, given what Kleinwort Benson calls "exceedingly fierce" competition from the U.S. investment banks and the powerful Japanese securities houses.

Issues

Interestingly enough, the British merchant bank which has been most involved in Japanese external bond management this year is Warburgs, which has made four issues. Of the banks with representative offices, Kleinwort Benson and Schroders have made three each, and Baring Brothers two. Robert Fleming made two issues and Morgan Grenfell one. Rothschilds led the management of an issue in December last year for Nippon Fudosan Bank, but has not been involved this year.

While the merchant banks may benefit in the struggle for a slice of the action through their close connections with Japanese banks, the U.S. investment bankers have advantages of their own. Having got into the market at a fairly early stage after the war, they suffered from the closure of the external bond market for

much of the 1960s, but waited patiently, and gained a lot of loyal friends in the process.

Nevertheless, Kleinwort Benson, for example, sees the bond underwriting business as being on the up and up, and predicts that the future could lie with the banks which have established joint ventures with Japanese banks of the kind discussed above. Schroders says the merchant banks are certainly not at a disadvantage to the U.S. competition, and notes that there is already a "tremendously heavy" programme of 18 or 19 new Japanese issues already in the pipeline for the first quarter of next year. In their last main area of activity in Japan, portfolio investment, the merchant banks, like everyone else, are of course to a considerable extent at the mercy of the moods of the Tokyo Stock Exchange.

Favourable

This year, as the market has revived in response to inflation control and expectations of economic recovery, there have been few complaints. Kleinwort Benson's Japan fund reached an all-time high in late November. In general, the merchant banks' fund management is handled in London. However, the Hambros Pacific subsidiary in Hong Kong is organising a fund management operation and will assume a more direct role in Hambros' Japan operations. The market has grown dull of late, as the economic upturn has proved tantalisingly slow in coming. But according to most analysts, the prospects for the merchant banks do not appear unfavourable, particularly since investment from Britain has been consistently higher than for other European countries or from the U.S.

Foreign investors were strong net buyers of Japanese stocks this year until net sales were recorded in August and September. In October there were again net purchases of \$24m. The merchant banks' differing attitude on the necessity or otherwise of a representative office in Tokyo no doubt reflects their diverse operating characters.

The Hambros office, opened in 1973, was evidently of great benefit initially in surveying the potential of the Japanese market, but the bank now feels an office is no longer necessary for the kind of business it wants to develop.

Schroders feels it got along quite well without formal representation until the office was opened at the beginning of 1974. Since then, however, all sorts of new possibilities have been opened up, and the more has "paid off" tremendously. Kleinwort feels it is necessary to have someone in Tokyo to cut through the Finance Ministry's red tape.

But whether resident or visiting, there seems certain to be an increasing number of merchant bank type cutters in Tokyo in the future.

Simon Tait

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The securities market

REIGNERS played a negative role in Japanese securities markets (both bonds and equities) around the middle of 1973 in the early part of last year. Throughout this period, sold more securities, each of them that they bought, thereby contributing to the weakness of the market (which did, however, have been weak in the bond market and in the equity market and in early 1975 there was a rapid flow of sign funds back into Japanese securities).

The flow diminished again in mid-summer and by autumn foreigners were on balance withdrawing their money in. But most observers (both Japanese and foreign) feel that the reason for foreign investors' change of heart towards

FOREIGN PORTFOLIO INVESTMENT						
	EQUITIES			BONDS		
	Purchases	Sales	Net	Purchases	Sales	Net
	\$m.	\$m.		\$m.	\$m.	
1975						
January	48.9	54.1	- 5.2	86.9	19.9	67.0
February	226.8	82.9	133.9	170.0	21.4	148.7
March	258.3	117.7	140.7	146.8	87.5	59.3
April	220.9	106.4	114.5	93.4	9.5	83.9
May	273.9	149.4	124.5	140.2	29.5	110.7
June	178.7	121.1	49.5	179.3	34.5	144.8
July	164.3	146.5	17.8	287.3	43.9	243.2
August	75.8	76.4	- 0.5	192.4	95.2	97.0
September	117.5	121.1	- 13.6	73.1	146.7	- 73.5
October	134.1	110.3	23.8	62.9	96.4	- 33.4

Japan was that the country appeared, around the end of 1974, to be achieving greater success than most other developed oil countries in overcoming the balance of payments problems created by the 1973

oil crisis. The balance of payments (and subsequently also the yen exchange rate) looked strong from the last few months of 1974 at least until summer 1975, which meant that invest-

ments in Japanese securities offered a potential exchange benefit in terms of many other foreign currencies. Another factor in the situation was the tendency of Arab governments and other holders of oil dollars to broaden their investment outlook around the end of 1974.

Arab investors were partly responsible for the net inflow of foreign money into Japanese bonds which began just before the end of 1974. Early this year there were one or two cases of major direct purchases of Japanese shares (mostly in the biggest and most widely known industrial companies) by certain Arab Governments. In addition the latter deposited money with London merchant banks, and the merchant banks then used part of these funds to buy Japanese securities.

Western Europe is cited as the origin of the overwhelming majority of the funds which have found their way into Japanese securities this year, with Hong Kong trailing well behind and the U.S. somewhat surprisingly, playing an even smaller role. Much of what is

CONTINUED ON NEXT PAGE



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JAPANESE BANKING AND FINANCE VIII

Wider role for trust banks

IN SOME respects the step-children of Japanese banking, notoriously unloved by investment analysts, and living examples of nearly every kind of Japanese compromise, the eight trust banks nevertheless have kept on growing faster than most other kinds of Japanese financial institution.

This year the trust banks command 11.7 per cent. of all funds in the private financial sector (\$53bn. out of \$530bn. a year ago), whereas in 1950 they held barely 3 per cent. of total funds of \$4.5bn. Seven of the eight rank among the 100 biggest banks in the world.

Thirty years ago, more recently even, this would have seemed frankly impossible. Taking what might appear to have been all the relevant facts, the story ought almost to have been one of the bounding of this group of institutions out of existence.

The trust banks started up in the mid-1920s (the currently most profitable, Sumitomo Trust, recently celebrated its fiftieth birthday) as strictly trust institutions handling other people's money and engaging in underwriting and other capital market activity, but with really none of the characteristics of banks—not even the right to take deposits.

Severe wartime inflation made this operational structure increasingly unsafe. Thus came legislation in 1943 which merged all but the seven strongest trust banks into other banking operations, of which they became (and have remained) trust departments. The seven that were left were mainly offshoots of the powerful *Zaibatsu*, including—apart from Sumitomo—Mitsubishi, Mitsui and Yasuda.

Then the Americans arrived and decreed a number of things which affected the industry, including the break-up of the *Zaibatsu* and restriction of underwriting privileges to securities companies, thereby threatening not only the foundations of the trust banks but also their lateral supports. Meanwhile inflation raged on.

This combination of circumstances favoured the trust banks, then one too sturdy (in its first 20 years Sumitomo's funds had grown to only \$2.9m.). Commercial logic may have dictated that they be summarily incorporated at that stage into the city banks which for the most part bear the same names. But this would have been directly contrary to the policy of breaking up Japan's financial power. The solution hit on was to allow the trust banks to save themselves by going fully into the business of everyday banking.

This gave them a tremendous fresh lease of life. Sumitomo took its first banking deposits in 1948; four years later these funds accounted for 58 per cent. of total funds which had meanwhile grown to \$65m.

Thorn

However, the trust banks problems were still not over. For now they were a thorn in the side of the established banks, and this was the period in which financial power was being reassembled with assistance from the Government and its agencies. The cry went up for a clearcut division between the money and capital markets and for the trust banks to be pushed back into the latter, from whence they had so recently come.

The final outcome was not so drastic, however. The solution

arrived at in 1953 was that the trust banks would go slow in the banking sphere, but in return would be vested with a new instrument with which to attract funds in the capital market, the so-called loan trust.

The result is the present trust bank movement, the funds of which come 60 per cent. from loan trusts, about 15 per cent. from bank deposits and the remaining 25 per cent. from other trust instruments, including administration of pension funds. In the case of Sumitomo, at end-September last it held \$7.2bn. in loan trusts and \$2.0bn. in deposits, out of total funds employed of \$11.9bn.

"Going slow" in banking meant a number of things, such as that the trust institutions were to stop chasing deposits for all they were worth, and were also to be patient about any expansion of the range of their banking activities. Nevertheless, as the figures show, they have been able to get away with steady growth of their banking.

In addition, they were not expected to wait forever for official permission to innovate. In 1971 they were allowed to establish correspondent relationships with overseas banks and open their first representative offices abroad. The following year they were allowed to expand their foreign exchange activities considerably and in 1974 the first overseas branches were established (Sumitomo and Yasuda now have them in London, while Mitsubishi, Mitsui and Toyo have agencies in New York). These are full service branches, though the trust banks naturally emphasise their expertise in medium and long-term financing.

Meanwhile loan trusts show no sign of losing their pull in

the competitive market for public's savings. From the point of view of the man in the street they consist essentially of certificates of deposit, guaranteed as to principal, matured after two or five years (acting to choice), but redeemable after one year in need, available as collateral by that.

At first sight it may seem difficult to see what is so special about this. The secret is loan trusts have always carried a higher interest rate (declared as dividends) than savings deposits at the banks. At the same time the public has no reason to think that banks are any less safe other financial institutions.

Indeed, according to Akira Noguchi, a managing director of Sumitomo, Japanese public sets store on the guaranteed principal, rather, he feels, because of a deep-seated fear about the financial consequences of a major earthquake on some other form of investment, especially equities.

Popular

There is no doubt it is a popular instrument. Sumitomo says that 99 per cent. of its trust customers are individuals and 73 per cent. of loan funds have been provided by individuals. Per family the average outstanding is \$6,260. In respect of money held, the average entered into is only \$850, in spite of the spread achieved by assiduous marketing.

The success of loan trusts no doubt a big reason for establishment of a new bank as recently as 1962, was Chuo, which now has available of \$3.6bn.

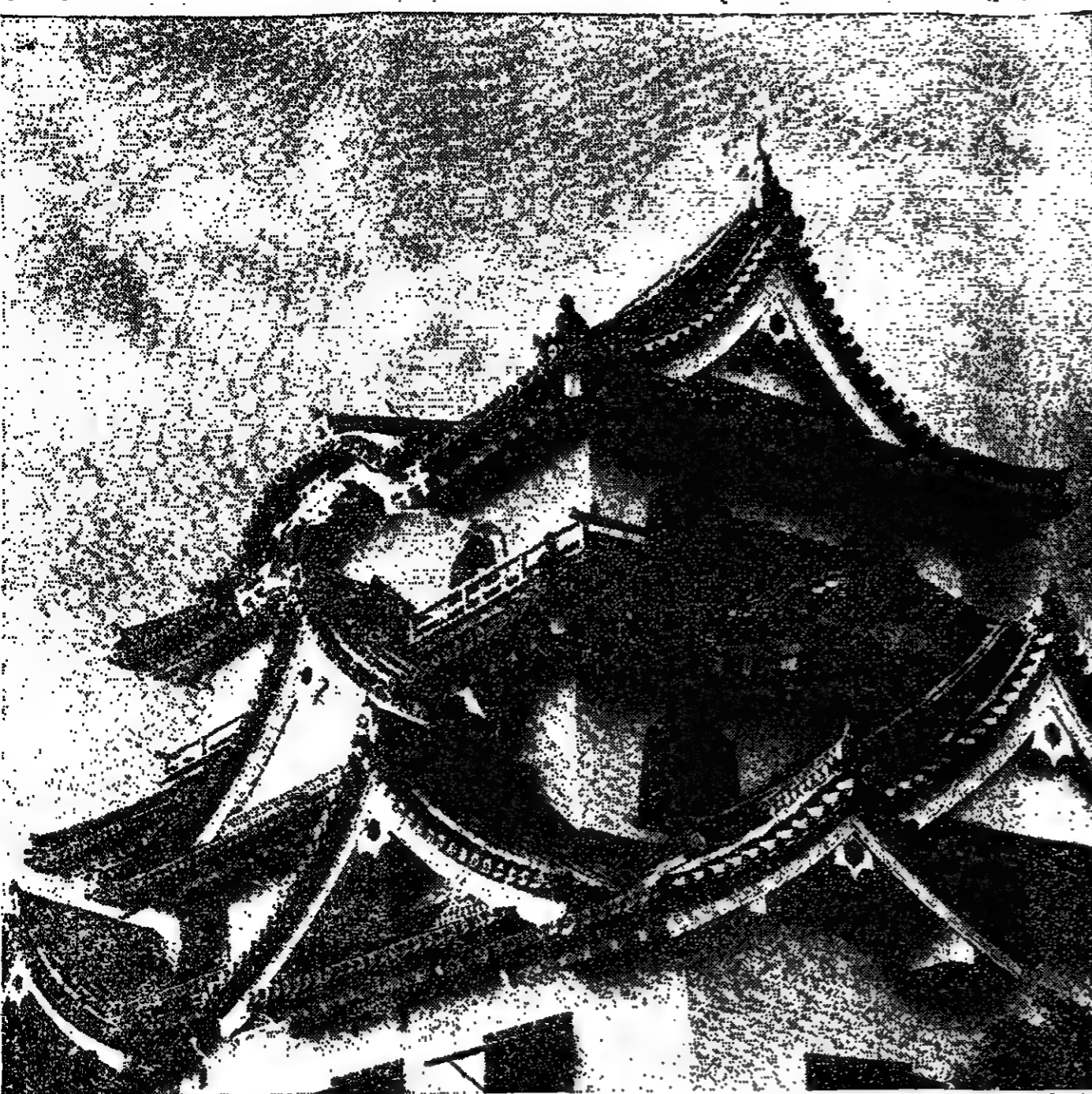
The biggest financial group trust banking is Mitsubishi, through Mitsubishi Trust, which has always had the largest base of operating funds and was also the acknowledged profit leader until nosed out by Sumitomo in the past months, and also through holdings in Nippon Trust, which is generally regarded as being in the Mitsubishi orbit.

All of these reported figures of funds in the months to end-September but with profits squeezed between lending rates dropped more quickly than borrowing rates. This, and unlovely investments in property in the past 18 months, are part of the reason why the securities industry does seem to care much just now about trust bank stock. However, greater reason is perhaps difficult to remedy; market the stock have always been.

One last example of promise. Japan's eighth bank is in fact a city Daiwa, which is allowed all classes of trust management.

C. S.

P.



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officially classified as "European" money may have originated in the form of oil dollars, but European institutional investors, including pension funds and insurance companies, were also buying Japanese securities in early 1975. Another major source of investments were offshore funds specialising in Japanese stocks controlled by European banks and securities companies.

Apart from isolated but well-publicised Arab purchases of "heavyweight" Japanese stocks, such as Nippon Steel, foreign investors have made most of their money during the past year in an exceedingly narrow range of 20 or 30 stocks chosen for their conformity with a rather un-Japanese list of specifications. The companies concerned have been mainly small to medium in size rather than the industry leaders on which Japanese investors normally concentrate their attention.

They share the common characteristics of a high unit share value (usually well over ¥1,000 per share) whereas Japanese shares are more frequently denominated at ¥100 or ¥200 per share; a low ratio of borrowed capital to equity and a strong position in a high technology industry or an emerging consumer market.

The boom in foreign investment in this limited range of companies has increased the share prices of the affected companies to roughly double the levels of a year ago and has in some cases brought foreign capital stake up to the 25 per cent. maximum permitted under Japanese regulations. (The increase in the foreign shareholding to a higher percentage is not forbidden, at least in theory, but requires consent from the company itself.) Some investors feel that the boom in 1975 foreign "favourites" may have spent itself for the time being—especially as the recent weakness of the yen has withdrawn one underlying motive for setting into Japanese equities. However, the fact that some of the gloss has disappeared from one specialised sector of the market has to be balanced against more general considerations governing foreign investment in Japanese stocks.

Most foreign managers of Japanese investment funds seem to feel that 1976 will be a reasonably good year for the Tokyo stock market, if only because company profits will be improving again after four consecutive declines, while the extra liquidity generated by Government refinancing policies should be increasing the flow of funds into equities. There is also a general feeling that over the longer term Japan will come to get more than its present rather minimal share of the global funds available for overseas portfolio investment. Just how much of the world total Japan gets at present is unknown but it is certainly much

less than the 12 to 13 per cent. of the world's gross national product which is represented by the Japanese economy.

U.S. investment in Japanese equities, which is at the moment very narrowly concentrated in a range of "household names" such as Sony and Matsushita, could provide the catalyst in building up big foreign holdings of a wide range of Japanese securities. One sign that the Americans are taking a stronger, though still largely academic, interest in Japanese securities is the establishment of full time "stock watching" units at the headquarters of three or four major American banks in Japan.

Another important factor determining the future trend of foreign investment in Japan will be the rate at which the Japanese stock market itself matures. In the past the Tokyo and Osaka stock markets have played a fairly marginal role in

the financing of Japanese industry with the main emphasis being concentrated on bank loans which were in turn financed by the channelling into bank deposits of private savings. This system could tend to change in the years of "moderate" economic growth which are expected to follow Japan's present recession.

The change will be accelerated if the stock market continues to outperform bank deposits rates in the yield which it provides on individual savings. But the Tokyo stock market still has a long way to go before it can match the range and sophistication of major Western equities markets—and a long way to go before foreign investors are likely to feel as much at home in it as they do in the markets of London or New York.

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Capital and Reserves ¥ 84,445 million (US\$ 286 million)
Profit for 1974 ¥ 3,982 million (US\$ 30 million)
(as of March 31, 1975; US\$1 = ¥294.80)

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THE MITSUBISHI TRUST & BANKING CO., LTD.

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مركز الامن الاصل

Christopher Lorenz examines yesterday's White Paper on computers and privacy

A program to protect us from the power of the computer

YESTERDAY'S White Paper on computers and privacy could make detailed proposals which are to some of the most significant in the history of social legislation of the twentieth century, giving British citizens the right to know what the British Computer Society, on behalf of the computer world, has been advocating for a year ago to help revamp original proposals, "the White Paper" is the first to lead the world in this important field.

Several years

What makes the White Paper proposals potentially tougher in anything in force overseas including Sweden, hitherto regarded as having the most strict of the various laws on computers and privacy now being reduced around the world—is that for almost all levels of government to conform to the same rules as the private sector.

For Britain could be the first country fully to protect the citizen's privacy in all computer systems, both in the public and private sectors, through a powerful and expert Authority independent of everyone, including the Government.

and speed with which information can be processed, in forecasting, and in making public administration more responsive to the needs of the individual citizen and his family." But, "like other powerful tools that man has devised, the computer can do harm if misused."

The White Paper succinctly describes the three main sources of potential danger to privacy: (a) inaccurate, incomplete or irrelevant information; (b) the possibility of access to information by people who should not have it; and (c) the use of information in a context or for a purpose other than that for which it was collected.

The best-known cases of invasion of individual privacy through the abuse of computers—or at least computer-based information—fall into category (b); expert cracking of computer codes to effect massive frauds, blackmailing with the help of sensitive information (of a whole community, in one notorious U.S. example), and so forth.

But (a) and (c) represent a far more widespread, if less noticeable, threat. In the private sector, the White Paper itself quotes the possibility of a computer file's saying that a bankruptcy petition was presented against a given individual on a certain day—

perfectly accurate, but misleading if it did not add that the petition was dismissed with costs a fortnight later. There is a wealth of possible—and in the U.S. actual—examples of how an individual's creditworthiness can be destroyed by inaccurate or incomplete information on the file of a credit agency.

These are private sector examples, but "the most acute anxieties about the possible consequences for privacy of the computerisation of personal information lie in the public sector," in the words of the Younger Committee on Privacy, whose report in 1972 attracted worldwide attention and forms



Mr. Paul Sieghart, the lawyer who played a major role in drafting the proposals

THE COMPUTER CODE OF STANDARDS

- Those responsible for holding personal information in computers must be under an obligation to take all reasonable protective measures to ensure that the information cannot fall into the wrong hands, whether by design, inadvertence or deliberate penetration.
- Those who hold personal information in computers should not conceal the scope of their operations—particularly from those to whom the information relates.
- The existence and purpose of such information systems should be publicly known, as well as the categories of data which they handle, what they do with data, and which interests have access to data.
- People asked to provide information should have a right to know for what purposes it will be used, and who is likely to have access to it.
- The information should not be used for a purpose other than that for which it was given, or obtained without either the consent of the person whom it concerns, or some other authorised justification.
- Only personal information which is necessary for declared purposes should be collected.
- The operator of the system should be responsible for ensuring its accuracy and relevance, and the subject of the information should be able to satisfy himself about this, which in many cases will best be achieved by giving him the opportunity to see it, check it and, if necessary, have it corrected.
- The subject should also be able to find out what has been done with the information and to whom it has been given. The information should be kept only for as long as it is needed.
- Security measures are needed to ensure that statistics are presented in a way which does not reveal details of an identified or identifiable individual.
- Some of these objectives will apply to all systems, others may need modification in the light of particular circumstances.

Legislation

The proposed legislation would involve two elements: the establishment of a "set of objectives," which could loosely be termed a code of standards (and which is itemised in the table); and the establishment of a permanent statutory agency "to oversee" the use of computers.

The Government sees at least two possible sorts of Data Protection Authority: a registration and licensing agency, able to prescribe safeguards, and to enforce compliance (as a condition of the grant and renewal of licences); or a body with the power to call for information on what systems are being operated by whom, how, and measures for safeguards; to publish its own recommendations about those systems; to investigate complaints; and to publish its findings—in other words

an Ombudsman system. With legislation maybe three years away, the Data Protection Committee will be established to advise the Government on the details. It is clear that the attitude of the Committee's six or seven members could be crucial in deciding the future shape of the law, though the eventual Bill is bound to be hotly debated in Parliament as well.

Letters to the Editor

Jet production moving at BL

The Chief Executive, at Group.

The prospects for the jet motor industry are bleak and the whole community is to lose much if the decline continues. The jet for this situation has been at the door of under-employment, poor management, industrial relations, low productivity, poor standards of safety, etc. etc.

The jet motor industry has emerged relatively unscathed in the all important jet engine. Collectively the jet engine has always managed all the products of our factories—good or bad. In fact, of the millions of cars produced the past years I do not know of one which remains in current stock, and the jet engine is a similar sized group. British Leyland distributors I am constantly frustrated by shortage of new car stock, near enough to the problem now that if British Leyland produces the current range in sufficient numbers we are greatly increase sales.

British Leyland dealer work is strong and well established throughout the length and breadth of the country, and I do not think they could rise to challenge of achieving a level of sales. I need to add that their success is a tribute to the management team at British Leyland. Improve our balance of payments, provide full-time employment for thousands of people.

We enter the critical early phase of 1976 it is of vital importance that British cars are able for immediate sale throughout the U.K. Of the problems that face the industry more urgent than need to be, the industry is moving and ensure ready availability of British cars in its showrooms. Failure to do this will inevitably result in further contraction of our car producers.

Wokefield Road, Iersfield.

Policy on motors

From Mr. J. Setford.

Sir,—What a pity it is that the qualities of single-mindedness, determination and courage displayed by the police in dealing with the recent issues are not also displayed by the Government in dealing with our economic problems.

The abandonment of a declared policy for the motor-car industry in aiding Chrysler solely to buttress the Labour vote in Scotland is only one example of the disastrous effects the present pattern of party politics.

Evidence grows daily that we are bedevilled by the present two-party system and that the only sensible answer is Proportional Representation, reflecting the wishes of the population.

John Setford, 2, Oakton Copple, Ashford, Surrey.

Bahamas tourism

From the Minister of Tourism for the Bahamas.

Sir,—Nicki Kelly's tale of woe "Holidays Under a Bahamas Cloud" (December 3) could give your readers the wrong impression about the state of Bahamas tourism.

Such an impression is damaging not only to the Bahamas efforts to promote tourism but to the nation because 77 per cent of the country's gross domestic product is derived from tourism. No other country is so dependent on tourism. In fact, it is an over-dependence which the Government is endeavouring to correct by the encouragement of other industries.

In stating that visitor totals had "plunged" from the 1973 peak of 1.5m. Ms. Kelly does not make it clear that the expected total for 1975 or just under 1.4m. is in line with the world decline in international tourism of around 10 per cent. over the last two years. Europe has taken a far sharper drop but Bahamian experience has been about average. Certainly it does not justify the stinging barb in the caption of the Nassau Harbour photograph accompanying the story saying: "At least the cruise ships still call."

We have felt the decline in U.S. visitor traffic more than most because of our dependence on tourism but we have been preparing for this by a policy of diversifying promotional efforts into Canada, U.K./Europe and other markets. Over 55,000 visitors in an increase of some 10 per cent. over the last three years. Arrivals from the U.K. for the first ten months of this year are up 27 per cent.—basically due to the circumstances.

Ms. Kelly also makes the point that Nassau has a low visitor turnover factor of about 20 per cent.

Less beef in the diet

From Mr. D. Bloom.

Sir,—To judge from an oblique phrase in Mr. Bullen's article, "Less beef in the British diet next year" (December 11) the ban on imports from our traditional suppliers, which has been in force for 18 months, is likely to continue through 1976 (perhaps for ever?).

As the Meat and Livestock Commission expects an increase in our exports of beef to the Continent although we do not produce enough for our own needs, and the Commission are trying to end the deficiency payment system (variable slaughter premiums) on beef in the U.K., prices here are bound to rise very rapidly.

We all know that inflation is still the greatest threat to our economy, yet here we find policies deliberately aimed at stoking it. Isn't it time we opted out of the Common Agricultural Policy which is so clearly against our interests?

Derek Bloom, 47, Old Church Street, Chelsea, S.W.3.

Tidal power

From Mr. R. T. Sezers and Mr. T. L. Shaw.

Sir,—By their unqualified presentation of facts, the Energy Technology Support Unit has, in its recent report, damaged the case for tidal power.

Although capable of supplying only 4 per cent of current energy demand, and therefore 2 per cent of forecast requirement in the year 2000 A.D. this bare fact about the Severn Barrage ignores the need to distinguish between quantity and quality in the supply of electricity. Quantity there must be to meet base load requirements, but in our thinking a premium is attached to that electricity which can be provided in a flexible manner so as to meet peaking requirements: such power, as would be produced by a barrage, has a higher quality than other power.

No electricity network can be without capacity to match rapid load variations. The 56 per cent of total electrical demand in 2000 potentially available from the Severn Estuary must be viewed relative to its sufficiency and eminent suitability to meet daytime load variations. The high value attached to electricity generated for peaking purposes underlines how inappropriate it is to cast a barrage on the same basis as nuclear sources which are spilt to base load output. Nuclear and barrage sources are complementary; 100 per cent nuclear is not the answer.

R. T. Sezers, T. L. Shaw, Department of Civil Engineering, University of Bristol, Bristol.

Social trends

From Mr. H. Philpot.

Sir,—I find it difficult to explain why in this country the word class seems to be used more frequently than in most others, except possibly in those of the far Left.

Is there a correlation between emphasis on class and the degree of Left-wing activity in a nation? For example, recently in passing through Moscow International Airport, I picked up a pamphlet in English which used the word class 30 times in less than four pages, generally in conjunction with the word working.

In my experience there seems to be a much wider gap in most western countries between the after tax income of the top 10 per cent. and the bottom 10 per cent. of their population than in the U.K., yet there does not seem to be the same preoccupation with class.

In the U.S. for example, the

Capital for Chrysler

Mr. H. Minter.

The Government's plans Chrysler typify all that is about the attitude of post-administrations to the management of the economy.

A protection of vested interests is to be put above national industrial considerations. Public money is to be at the disposal of a particular company (an American one in this case), thus postponing adoption of realistic policies regard to investment and management.

It will be more difficult than to put across the message earnings depend on production. The impression grows that management and the right goods at the right price and the right time for less than the right to flex muscles and State hand-outs.

Only hope of escape lies

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To-day's Events

Mr. Denis Healey, Chancellor of Exchequer, makes statement on import controls during Commons debate on employment.

Conference on International Economic Co-operation continues, Paris.

EEC Commission meets, Brussels.

Labour Party National Executive meets, London.

Prime Minister Mr. James Callaghan, Saudi Arabian Deputy Defence Minister, arrives in London for talks with British Government.

Mrs. Shirley Williams, Prices Secretary, is guest speaker at War on Want "poverty lunch," Royal Commonwealth Society, WC2.

To-day's Events

Mr. Kenneth Clark, Conservative MP for Rushcliffe, presents Private Member's Bill in House of Commons which would implement certain recommendations of the Enrol Committee on liquor licensing.

Forestry Commission annual report published.

Parliamentary Business

House of Commons: Debate on employment and measures for saving jobs. Motions on Hill Livestock (Compensation Allowances) Regulations, Winter Keep (Scotland) (Revocation) Scheme, and Weights and Measures Act 1963 (Revisits and Shortbread) Order.

House of Lords: Debates on timber; on Report of Horse Race Betting Levy Board; and on Report of Hydrographical Study Group in relation to economic needs in U.K. and developing countries.

OFFICIAL STATISTICS

Basic rates of wages and normal weekly hours (November).

Monthly index of average earnings (October).

Construction output (third quarter).

COMPANY RESULTS

BOC International (full year).

Imperial (full year).

Lindesay (full year).

Redman Heenan International (full year).

Trafalgar House Investments (full year).

Unigate (half-year).

COMPANY MEETINGS

Bellair Cosmetics, Winsford, Cheshire, 11.30.

British Industries and General Investment Trust, 117, Old Broad Street, EC2, 2.30.

Low (Wm.), Dundee, 12.

Sanderson, Murray and Elder, Bradford, 12.15.

Southern India Tea Estates, Sevenoaks, 12.

Yorkshire Investment Trust, Manchester, 12.30.

SPORT

Soccer: Scotland v. Romania, Hampden Park, Glasgow.

Show jumping: International championships, Olympia.

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17/12/75

Premier Oilfields expands

September 30, 1975, up from \$11,100 to \$11,850. Sales expanded from \$10,450 to \$12,830.

Profits were struck after interest of \$20,561 compared with \$19,551. The net charge is given from \$812,940 to \$804,877 and a profit on the sale of property and investment adds \$112,684 (loss \$106,626).

IN THE six months ended September 30, 1975 profits, before tax, of Premier Consolidated Oil Corp. expanded from \$377,000 to \$229,550. The 1974-75 result compared with \$650,321. This result exceeds the total of \$373,090 reported for 1974-75 which included exceptional credits of \$149,271 and was achieved from sales of \$1,200,000.

The Board is not able to recommend a final dividend, as the \$100,000 at the maximum permitted has already been paid out in the form of first and second interim dividends of \$40,000 and \$60,000 respectively. (0.049125¢) net per share.

Results for the first two months of the current year have been reasonably satisfactory and the directors hope that the remainder of the year will continue in a like manner.

	1937-38	1937-38
Group sales	897,964	957,474
Depreciation	119,583	184,123
Losses	11,366	10,300
Other income	124,237	82,300
Profit	228,979	252,951
U.S. tax	11,366	10,300
Foreign tax	1124,839	1248,450
Net profit	91,568	108,901

Dividend of \$1.00 per share. Total amount of final dividend brought forward of £20,000.

Other income includes profits of subsidiary companies.

Comment
Incorporating second half growth of 5 per cent, J. and H. E. Jackson's pre-tax profits are ahead by

over a quarter on slightly better margins of 12.5 per cent. The pasta drive has come from foreign, where demand for aircraft components (half of activity last year and getting bigger) has been at reasonable levels. General enclosures is holding up well, though demand for the heavy-duty merchandising side has suffered.

from falling volume and scrap prices. Capital spending has again been maintained at high levels, and the company has been financed from the group's own resources. Whether the momentum in aircraft forgings will continue to build up in this year is open to question and a p/e of 3.6 at 21p, where the yield is a well-covered 51 per cent, is taking the cautious view.

The Wo

Speech by the Chairman, Mr. Alexander Meikle, CBE, CA, FRS, to the 128th Annual General Meeting of the Members held at the Connaught Rooms, Great Queen Street, London WC2, on Tuesday, 16th December 1975.

I have pleasure in submitting the Directors' Annual

Report and Accounts for the Society's 128th year which ended on 30th September 1975.

Interest Rates

At our Annual General Meeting last year, although I was unwilling to express a firm view as to what might be the next movement in interest rates generally, I had confidence in the Society's ability to avoid any increase in the mortgage interest rate above the then level of 11 per cent per annum. Indeed, the rate of

Interest on repayment mortgages remained unchanged at that level throughout the year. So that happily, in a year of steeply rising prices, our borrowers were cushioned against an increase in this important element in their family budgets.

Various factors enabled us to hold steady our mortgage interest rate whilst achieving high volumes of both investment and mortgage business. Interest rates generally fell during the year and the local authority three-month deposit rate, which is a good indicator of the competition afforded by other media with the gross equivalents of our interest on repayments, rose over the year of fully 1.0 per cent per annum.

Ordinary Share Accounts	From 1 Oct 1921 May	7.50 per cent	From 1 June 1921 Sept	7.00 per cent
Two-Year Investment Certificates				
Issue closed 31st May 1925		8.50 per cent		8.00 per cent

Issue opened 1st June 1973	—	7.75 per cent
Savings Plan Accounts	8.75 per cent	8.25 per cent

Income tax at the basic rate on all share and deposit interest is discharged by the Society. For an investor paying income tax at the present basic rate of 35 per cent, the current Ordinary Share Account rate in particular, of 7 per cent, now has a gross equivalent of 10.77 per cent per annum.

The investing public, whose confidence had been shaken in such investments as, not so long ago, were being offered as 'guaranteed

income bonds and the like have sought a safer refuge for their money. They know that the face value of their holdings with the Society, is protected by a very strong portfolio of investments, combined with mortgages totalling over £1,000 million, which are well secured on homes of the people. They also know that these holdings can be withdrawn almost on call, with interest in full and no charges whatsoever.

for home mortgages also being maintained at a high level, we completed in the year some 38,000 home loans amounting in total to £292 million. This meant that there were nearly twice as many mortgages completed as in the previous year, added to which at 30th September there were 9,000 further similar loans, totalling some £75 million, to be dealt with in the ordinary course of business.

Gross receipts from investors, plus compounded interest, were £181 million being an all-time record by a handsome margin. The total assets amounted to £1,250 million compared with £1,048 million a year earlier. This represented an increase of 20.1 per cent, some im-

derivate part of which was clearly realized to the credit of its fiduciary discharge throughout the year. It was, however, no trifling feat for our branches together with our Accounting Administration to handle a combined gross turnover of investment and mortgage business of well over 1,750 million. Also there was an increase of 140,000 to 1,145,000 in the combined totals of our investing and borrowing members. The warm thanks of the Board and our members alike are due to the staff, some 1,500 strong, for a splendid year's work.

Strong Liquid Position
Our total assets at the year-end included investments, bank balances and

Local Authority	million
-very short term loans	20
Sterling Certificates of Deposit	25
Bank of England's Cash in Hand	

with the main clearing banks, accepting houses and, in selected cases, clearing bank subsidiaries	40
*Quoted Investments—Government Securities	
Accrued Interest Bonds (i.e. re- deemable within five years) ..	£120m
Redeemable in over five years ..	5m
	x25 (Redemption

with the main clearing banks, accepting houses and, in selected cases, clearing bank subsidiaries	40
*Quoted Investments—Government Securities	
Accrued Interest Bonds (i.e. re- deemable within five years) ..	£120m
Redeemable in over five years ..	5m
	x25 (Redemption

Total £210 value £1,32m)

*Market value exceeded Book value at 30th September by £809,000.

This very strong liquid position provides what is currently being described as a "Substitution Fund" with which to maintain a steady level of home loans as the months go by.

Revenue Account and Reserves

"I am able to report an appreciable increase in profit during the second half of the year, as a result of which the year showed a group profit of £649,558 against £473,582 last year. Turnover also showed an encouraging improvement and, after deduction of inter-company sales, reached £12,686,920 against £11,603,127.

Increased Royalties have been achieved on DAKS high quality clothes manufactured under licence in U.S.A. and Japan. An agreement has been entered into for manufacture of DAKS clothes under licence in Canada.

Simpson (Piccadilly) Ltd. has again achieved its progressive targets in a year of variable trading conditions. Our reputation for quality, character, enduring value and service remains high in this country and abroad, and its attraction for overseas visitors continues to be an important part of the trading pattern. The demand for DAKS clothing for men and women remains an essential part of our success and we are also meeting the demand for menswear in our new line.

for racing purposes for a yearling colt by Connaught out of Every Blessing. This animal has excellent classic potential on his breeding and appearance. Connaught won £69,000 prize money during his racing career, including winning the King Edward Seventh Stakes at Royal Ascot by 12 lengths, and securing places second in the Derby. He was the leading sire of two yearlings, winners of the first crop to race. Every Blessing won four good races, including the Princess Elizabeth Stakes at Epsom. For details of share price, which includes insurance, keep, and all racing expenses for one year, contact Mrs. Rosemary Lomax, Downes House, Baydon, Marlborough, Wilt. Tel: Aldbourne 288. Telex 449703.

Polwich

liquid position"

Fund, and the addition to the Reserve Account was £3,000,000. The resultant balance on Reserve Account was £36 million.

The ratio of this balance to total assets fell by 0.27 per cent to 2.91 per cent, but in a year of massive expansion this was no disaster. The fact is that the Reserve

Account balance required under the relevant Statutory Rules to preserve our 'Trustee Status' on the basis of our present total assets is some £21 million. There is thus a surplus of £15 million which I hope we shall preserve but, for the present, accretions to it are not imperative.

A further word about our Reserves; on the present level of interest yields and the assumption that our Reserves are represented by an appropriate part of

our Government Securities, these Reserves are yielding per annum £4 million gross or some £2.5 million net without which we could not 'make a living' on the basis of an 11 per cent mortgage interest rate combined with an average rate to investors of over 7 per cent. Today, for example, you or I would be charged by any clearing bank a rate of overdraft interest of the equivalent of 13 per cent or more. I, having been with the Society in executive and directoral capacities for very many years, take some pride in just that comparison which is all the more remarkable when one remembers that thousands of millions of pounds are held by

these banks on behalf of their customers at no interest at all. In fact our Society is providing our borrowers with home loans at an interest rate "below cost".

notwithstanding the inevitable heavy increases in salaries and other office expenses we have had to bear, but with the benefit of an effective economy drive at all levels, the increase in our ratio of expenses only rose by 3p, to 65p, per £100 of total assets.

We have held steady the numbers of staff at our Chief Offices at Woolwich and Bevilgheth. The net increase in our total staff numbers of approximately 30 resulted from the opening of the new branches to which I have already referred. The Board are determined to ensure that containment of costs without loss of efficiency remains its high

Private Housing Market

Before I conclude I should like to express a few thoughts on the private housing market. Throughout the year and the country there remained in hand a considerable unsold stock of both new and second-hand houses. This no doubt accounted for the minimal impact on house property prices of a very high level of mortgage lending by the building societies during the past year and compared well with the house prices explosion which we suffered in 1972/73. Clearly problems continu-

to face the private house-builders and we were disappointed that only 25 per cent of our total advances in the year were secured on newly-built houses compared with our traditional ratio of fully 30 per cent. Wages and the cost of materials are often rising at a higher rate than are the house-prices which would-be purchasers are able to pay. This is particularly true of somewhat larger houses, which are difficult to sell at prices affording a reasonable return and may have affected the confidence of our friends in the house-building industry. I am sure, however, that they will not lose heart. Indeed 'Matts' in the first nine months of this year are 32 per cent up on those in the same period.

The country badly needs a stable and vigorous house-building industry producing a steady and large supply of newly-built houses especially under present economic conditions, in the lower price ranges. The continued increase in home ownership is a fundamental part of the Government's domestic policy. And I trust that the relief from tax on mortgage interest which has been granted to all building society borrowers since the 19th century will be preserved on a generous basis.

Our Society will make available simple plans to assist as many responsible purchasers as may emerge to buy the newly-built houses of their choice.

Future Prospects

The enormous success and development of the British building societies over the past half century, which has been the period of their maturity and achievement, has been due in no small measure to the remarkable freedom of the Boards of Directors from any external interference in the affairs of their societies. I should add, as I know this to be a general experience, that these have, for the most part,

We must also, for example, avoid undue involvement with the problems of the town halls and the like. At present there is in operation a scheme for building societies to make home loans, subject to their usual criteria, to applicants who have been turned down by local authorities for lack of mortgage funds. Incidentally there is a totally mistaken notion that building societies like ours are reluctant to lend to buyers of pre-1919 houses. Last year our Society completed over

5,300 such mortgages and we continue to entertain such mortgage applications, including those from 'the town hall', wholly on their merits and, where required, on very generous terms.

As I have already indicated I have had a long stint in our building society world. I retain my faith in the future of the British building societies and I assure you of my total confidence in the stability and continued progress of our own great Society.

I beg to move

That the Directors' Report together with the accounts for the year ended 31st December 1964 be received.

WITCH
BUILDING SOCIETY
E15 5AB

Jan. 10p.	30	2.9	2.9	142	Stock Exchanges throughout the United Kingdom fee of £225 per annum for each association
	44	2.95	2.8	137	

[illegible]

7.0	26	94	38	50	10	56	11	9.6	104	30	20	Pittcock & Rye Est.
7.0	26	94	38	50	10	56	11	9.6	104	30	20	Pittcock & Rye Est.

Jan. 10p	30	12/4	29/14	Stock Exchanges throughout the United Kingdom Fee of £225 per annum for each connection
Feb.	44	195	28/13	

AUTHORISED UNIT TRUSTS

Abey Unit Tr. Mgrs. Ltd. (a)(g) 25, Colchester Rd., Aylesbury. 02955901 Abey Capital 22.4 22.1 +0.3 Abey Income 22.1 21.8 +0.3 Abey Div. 22.1 21.8 +0.3 Abey Gen. 22.1 21.8 +0.3	Bridge Talisman Fund Mgrs. (a)(g) 25, Colchester Rd., Aylesbury. 02955901 Bridge Talisman 22.4 22.1 +0.3 Bridge Talisman Income 22.1 21.8 +0.3 Bridge Talisman Div. 22.1 21.8 +0.3 Bridge Talisman Gen. 22.1 21.8 +0.3	British Life Office Ltd. (a) 1, Abchurch Lane, London E.C. 4 British Life 22.4 22.1 +0.3 British Life Income 22.1 21.8 +0.3 British Life Div. 22.1 21.8 +0.3 British Life Gen. 22.1 21.8 +0.3	Garrett Fund Managers 25, Colchester Rd., Aylesbury. 02955901 Garrett Capital 22.4 22.1 +0.3 Garrett Income 22.1 21.8 +0.3 Garrett Div. 22.1 21.8 +0.3 Garrett Gen. 22.1 21.8 +0.3	Lloyds Unit Tr. Mgrs. Ltd. (a)(g) 25, Colchester Rd., Aylesbury. 02955901 Lloyds Unit Tr. 22.4 22.1 +0.3 Lloyds Unit Tr. Income 22.1 21.8 +0.3 Lloyds Unit Tr. Div. 22.1 21.8 +0.3 Lloyds Unit Tr. Gen. 22.1 21.8 +0.3	Mutual Unit Trust Managers (a)(g) 25, Colchester Rd., Aylesbury. 02955901 Mutual Unit Tr. 22.4 22.1 +0.3 Mutual Unit Tr. Income 22.1 21.8 +0.3 Mutual Unit Tr. Div. 22.1 21.8 +0.3 Mutual Unit Tr. Gen. 22.1 21.8 +0.3	Seabank Unit Tr. Managers Ltd. (a)(g) 25, Colchester Rd., Aylesbury. 02955901 Seabank Unit Tr. 22.4 22.1 +0.3 Seabank Unit Tr. Income 22.1 21.8 +0.3 Seabank Unit Tr. Div. 22.1 21.8 +0.3 Seabank Unit Tr. Gen. 22.1 21.8 +0.3	Target Unit Tr. Managers (a)(g) 25, Colchester Rd., Aylesbury. 02955901 Target Unit Tr. 22.4 22.1 +0.3 Target Unit Tr. Income 22.1 21.8 +0.3 Target Unit Tr. Div. 22.1 21.8 +0.3 Target Unit Tr. Gen. 22.1 21.8 +0.3
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INSURANCE, PROPERTY, BONDS

REGIONAL MARKETS

Following the merger last year of U.K. stock exchanges, a selection of the share prices previously shown under regional headings is presented below with quotations in London for issues which are not otherwise listed in London, are shown separately with prices as on the Irish exchange.

Company	Price	Company	Price
Albany Life	22.4	Albany Life	22.1
Albany Income	22.1	Albany Income	21.8
Albany Div.	22.1	Albany Div.	21.8
Albany Gen.	22.1	Albany Gen.	21.8

THEATRES (Cont.)

THEATRE THEATRE 11-12-75 11.00 13-14-75 11.00 15-16-75 11.00 17-18-75 11.00 19-20-75 11.00 21-22-75 11.00 23-24-75 11.00 25-26-75 11.00 27-28-75 11.00 29-30-75 11.00 31-1-76 11.00	THEATRE THEATRE 11-12-75 11.00 13-14-75 11.00 15-16-75 11.00 17-18-75 11.00 19-20-75 11.00 21-22-75 11.00 23-24-75 11.00 25-26-75 11.00 27-28-75 11.00 29-30-75 11.00 31-1-76 11.00	THEATRE THEATRE 11-12-75 11.00 13-14-75 11.00 15-16-75 11.00 17-18-75 11.00 19-20-75 11.00 21-22-75 11.00 23-24-75 11.00 25-26-75 11.00 27-28-75 11.00 29-30-75 11.00 31-1-76 11.00	THEATRE THEATRE 11-12-75 11.00 13-14-75 11.00 15-16-75 11.00 17-18-75 11.00 19-20-75 11.00 21-22-75 11.00 23-24-75 11.00 25-26-75 11.00 27-28-75 11.00 29-30-75 11.00 31-1-76 11.00
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Abey Life Assurance Co. Ltd. 25, Colchester Rd., Aylesbury. 02955901 Abey Life 22.4 22.1 +0.3 Abey Life Income 22.1 21.8 +0.3 Abey Life Div. 22.1 21.8 +0.3 Abey Life Gen. 22.1 21.8 +0.3	The City of Westminster Assurance Co. Ltd. 25, Colchester Rd., Aylesbury. 02955901 The City of Westminster 22.4 22.1 +0.3 The City of Westminster Income 22.1 21.8 +0.3 The City of Westminster Div. 22.1 21.8 +0.3 The City of Westminster Gen. 22.1 21.8 +0.3	Hambro Life Assurance Limited 25, Colchester Rd., Aylesbury. 02955901 Hambro Life 22.4 22.1 +0.3 Hambro Life Income 22.1 21.8 +0.3 Hambro Life Div. 22.1 21.8 +0.3 Hambro Life Gen. 22.1 21.8 +0.3	Life & Equity Assurance 25, Colchester Rd., Aylesbury. 02955901 Life & Equity 22.4 22.1 +0.3 Life & Equity Income 22.1 21.8 +0.3 Life & Equity Div. 22.1 21.8 +0.3 Life & Equity Gen. 22.1 21.8 +0.3	Norwich Union Insurance Group 25, Colchester Rd., Aylesbury. 02955901 Norwich Union 22.4 22.1 +0.3 Norwich Union Income 22.1 21.8 +0.3 Norwich Union Div. 22.1 21.8 +0.3 Norwich Union Gen. 22.1 21.8 +0.3	Scott. Widows' Fund & Life Ass. Soc. 25, Colchester Rd., Aylesbury. 02955901 Scott. Widows' Fund 22.4 22.1 +0.3 Scott. Widows' Fund Income 22.1 21.8 +0.3 Scott. Widows' Fund Div. 22.1 21.8 +0.3 Scott. Widows' Fund Gen. 22.1 21.8 +0.3
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OFFSHORE AND OVERSEAS FUNDS

Albany Management Co. Ltd. 25, Colchester Rd., Aylesbury. 02955901 Albany Management 22.4 22.1 +0.3 Albany Management Income 22.1 21.8 +0.3 Albany Management Div. 22.1 21.8 +0.3 Albany Management Gen. 22.1 21.8 +0.3	Barclays Bank Ltd. 25, Colchester Rd., Aylesbury. 02955901 Barclays Bank 22.4 22.1 +0.3 Barclays Bank Income 22.1 21.8 +0.3 Barclays Bank Div. 22.1 21.8 +0.3 Barclays Bank Gen. 22.1 21.8 +0.3	British Life Office Ltd. 1, Abchurch Lane, London E.C. 4 British Life 22.4 22.1 +0.3 British Life Income 22.1 21.8 +0.3 British Life Div. 22.1 21.8 +0.3 British Life Gen. 22.1 21.8 +0.3	Garrett Fund Managers 25, Colchester Rd., Aylesbury. 02955901 Garrett Fund 22.4 22.1 +0.3 Garrett Fund Income 22.1 21.8 +0.3 Garrett Fund Div. 22.1 21.8 +0.3 Garrett Fund Gen. 22.1 21.8 +0.3	Lloyds Unit Tr. Mgrs. Ltd. (a)(g) 25, Colchester Rd., Aylesbury. 02955901 Lloyds Unit Tr. 22.4 22.1 +0.3 Lloyds Unit Tr. Income 22.1 21.8 +0.3 Lloyds Unit Tr. Div. 22.1 21.8 +0.3 Lloyds Unit Tr. Gen. 22.1 21.8 +0.3	Mutual Unit Trust Managers (a)(g) 25, Colchester Rd., Aylesbury. 02955901 Mutual Unit Tr. 22.4 22.1 +0.3 Mutual Unit Tr. Income 22.1 21.8 +0.3 Mutual Unit Tr. Div. 22.1 21.8 +0.3 Mutual Unit Tr. Gen. 22.1 21.8 +0.3	Seabank Unit Tr. Managers Ltd. (a)(g) 25, Colchester Rd., Aylesbury. 02955901 Seabank Unit Tr. 22.4 22.1 +0.3 Seabank Unit Tr. Income 22.1 21.8 +0.3 Seabank Unit Tr. Div. 22.1 21.8 +0.3 Seabank Unit Tr. Gen. 22.1 21.8 +0.3	Target Unit Tr. Managers (a)(g) 25, Colchester Rd., Aylesbury. 02955901 Target Unit Tr. 22.4 22.1 +0.3 Target Unit Tr. Income 22.1 21.8 +0.3 Target Unit Tr. Div. 22.1 21.8 +0.3 Target Unit Tr. Gen. 22.1 21.8 +0.3
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NOTES

BENEFIT

This service is available to every Company dealt in on
Stock Exchanges throughout the United Kingdom for a
fee of £25 per annum for each security

